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June 20, 2003

VIA HAND DELIVERY

Mr. Gary E. Walsh
Executive Director
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, S.C. 29210

Re: *Application of Covista, Inc. for Authority to Provide Resold and Facilities-Based Local Exchange Service Within the State of South Carolina*

Dear Mr. Walsh:

Enclosed please find for filing an original and fifteen (15) copies of the Application of Covista, Inc. for Authority to Provide Resold and Facilities-Based Local Exchange Service Within the State of South Carolina.

I have enclosed an extra copy of this application which I would ask you to date stamp and return to me through my courier. If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me. Thank you.

Sincerely Yours,

ELLIOTT & ELLIOTT, P.A.

Scott

SCOTT ELLIOTT

SE:ab
Encl.

cc: Lance J.M. Steinhart, Esquire

ORIGINAL

STATE OF SOUTH CAROLINA
BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

In re:	)	
	)	
Application of Covista, Inc.	)	
	)	
For a Certificate of Public Convenience and Necessity to Provide Local Exchange Telecommunications Services and for local service offerings to be regulated in accordance with procedures authorized for NewSouth Communications in Order No. 98-165 in docket No. 97-467-C	)	**DOCKET NO.** 2003-200-C

APPLICATION OF COVISTA, INC.

FOR AUTHORITY TO PROVIDE RESOLD AND FACILITIES-BASED/UNE-P

LOCAL EXCHANGE SERVICE

Covista, Inc. ("Covista" or "Applicant"), pursuant to S.C. Code Ann. § 56-9-280(B)[1] and Section 253 of the Telecommunications Act of 1996[2], respectfully submits this Application for Authority to Provide Resold and Facilities-Based/INE-P Local Exchange Service ("Application") in the State of South Carolina and for local service offerings to be regulated in accordance with procedures authorized for NewSouth Communications in Order No. 98-165 in docket No. 97-467-C.

[1] As amended by Act No. 354, signed by the Governor on June 6, 1996.

[2] Telecommunications Act of 1996, 47 U.S.C. § 253 (1996).

Applicant intends to provide local exchange service to customers located in non-rural local exchange carriers' service areas of South Carolina. Should its Application be granted, Covista plans to commence offering service immediately upon the establishment of the appropriate and necessary resale arrangements with the incumbent Local Exchange Carriers ("LECs"). Applicant will be negotiating an interconnection/resale agreement with BellSouth to provide local service.

Approval of this Application will promote the public interest by increasing the level of competition in the South Carolina telecommunications market. Ultimately, competition will compel all telecommunications service providers to operate more efficiently and pass the resultant cost savings on to consumers. In addition, as a result of competition, the overall quality of local exchange service will improve.

In support of its Application, Covista states as follows:

I. <u>Introduction</u>

1. The name and address of the Applicant are:

   Covista, Inc.
   721 Broad Street, 2nd Floor
   Chattanooga, Tennessee 37402

2. All correspondence, notices, inquiries and other communications regarding this Application should be directed to:

Lance J.M. Steinhart, Esq.	Local Counsel:
Lance J.M. Steinhart, PC	Scott Elliott, Esq.
1720 Windward Concourse	Elliott & Elliott, P.A.
Suite 250	721 Olive Street
Alpharetta, Georgia 30005	Columbia, SC 29205
Telephone: 770/232-9200	Telephone: 803/771-0555
Facsimile: 770/232-9208	Facsimile: 803/771-8010
Email: lsteinhart@telecomcounsel.com	

3. In support of this Application, the following exhibits are attached hereto:

a. Exhibit A - Covista's Articles of Incorporation, as amended, filed with the Secretary of State for the State of New Jersey;
b. Exhibit B - Covista's Certificate of Authority to Operate in South Carolina as a Foreign Corporation;
c. Exhibit C – Covista Communications, Inc.'s Form 10-K for the year ended January 31, 2002 and Form 10-Q for the period ended October 31, 2002.
d. Exhibit D - Biographies of Covista management; and
e. Exhibit E - Illustrative Price List for Local Exchange Service;

II. Description of the Applicant

1. General Information

Applicant is a New Jersey Corporation, which was formed on March 9, 1960. The company is headquartered at 721 Broad Street, 2nd Floor, Chattanooga, Tennessee 37402.

2. Customer Service

Covista's customer service representatives are available to assist its customers and will promptly respond to all customer inquiries. Customers may call (800) 805-1000 or a local number. The applicable toll free or local numbers will be printed on customers' monthly billing statements. Alternately, customers wishing to communicate with a Covista customer service representative in writing may send written correspondence to Covista at:

Covista, Inc.
ATTN: Tony Barrett
721 Broad Street, 2nd Floor
Chattanooga, Tennessee 37402

Covista's customer service representatives are prepared to respond to a broad range of service matters, including inquiries regarding: (1) the types of services offered by Covista and the rates associated with such services; (2) monthly billing statements; (3) problems or concerns pertaining to a customer's current service; and (4) general service matters.

III. Covista Possesses the Technical, Managerial and Financial Expertise Necessary to Provide Local Exchange Service

Covista possesses the requisite technical, financial and managerial capabilities to operate as a competitive telecommunications provider. These capabilities are explained in detail below.

1. Financial Qualifications

Covista is financially able to provide the services proposed in its tariff as evidenced by Covista Communications, Inc.'s Form 10-K for the year ended January 31, 2002 and Form 10-Q for the period ended October 31, 2002. Covista is a wholly owned operating subsidiary of Covista Communications, Inc., a publicly held fully reporting SEC company.

2. Managerial Qualifications

Covista's senior management team is highly skilled, having acquired considerable experience in the telecommunications industry. Using this extensive expertise, Covista's management team has developed innovative marketing and operating strategies. In conjunction with effective financial and operational measures, these marketing strategies will enable the company to provide quality service at competitive rates, while resulting in profitable operations for the Applicant. Covista has extensive experience in the technical, managerial, and financial aspects of the telecommunications industry.

2. Technical Qualifications

Applicant's key management personnel have significant business and telecommunications experience. Applicant is authorized to, and is providing long distance service throughout the United States. For South Carolina, See Docket Nos. 94-397-C. (Applicant formerly known as TotalTel). Applicant is currently authorized to provide local exchange services in California, Colorado, Connecticut, Delaware, Florida, Illinois, Minnesota, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Virginia, Washington D.C. and Washington. Covista is in the process of obtaining authorization to provide local service nationwide. The company is not currently providing local exchange service, however, it intends to initiate service in selected markets in the next 90 days. No such applications have been denied or dismissed. Applicant will also rely upon the technical expertise and telecommunications experience of its underlying carriers.

Covista will initially offer resold local exchange services and local services utilizing the UNE-P platform. Such services will be provided by utilizing the facilities of incumbent local exchange carriers ("LECs"), as well as unbundled network elements. Covista will primarily resell the facilities and services of BellSouth. Covista will also use unbundled network elements and services purchased from BellSouth and other incumbent local exchange providers, where applicable, to provide service through Covista's facilities.

If Covista installs equipment for the provision of local exchange services, it will probably use the following or a similar configuration of equipment, which is deployed in several other states: It will provide voice, high speed data and internet access services through a combination of the latest technology switching and transport media comprised of the Lucent Technology 5 ESS Generic 13 switch, ADSL/SDSL transport and Internet service equipment and the latest Optical multiplexer DAC's configurations. The switching system consists of a central processing and control complex capable of interconnection as a peer to the incumbent as well as competitive local exchange companies. The hub portion of the switch will interconnect with the public switched network on Signaling System 7 ("SS7") or Feature Group D ("FGD") facilities. The system supports local number portability, the needs of the service bureau of LNP providers, and has ISDN primary interface support for call set-up for originations and terminations based on ANSI standards and offers ISDN implementation. The system's remote module capability will allow properties to be served in a manner that provides the exchange of appropriate signaling, control and calling/caller information to the network in accordance with network standards and specifications. Additionally, these services will be delivered over a combination of delivery mechanisms through incumbent local carriers' unbundled loop network, both copper and fiber and transport networks, as well as via constructed facilities. Its services will be available on a full-time basis, twenty-four hours a day, seven days a week, to customers within the geographic boundaries of the State of South Carolina. APPLICANT will bill customers. Applicant is committed to providing access to a local operator, directory assistance, 911 services, and dual relay services. Applicant is also willing to accept its obligations to collect 911 and dual relay service surcharges from its local exchange customers, and to remit those funds to the appropriate authorities.

As the foregoing illustrates, Covista possesses considerable telecommunications expertise. Covista is technically qualified to provide local exchange telecommunications services in South Carolina.

IV. Approval of Covista's Application is in the Public Interest

Granting Covista's Application is consistent with S.C. Code Ann. § 58-9-280(B), as amended by 1996 Act No. 354, and, in that regard Applicant makes the following representations to the Commission:

a. Applicant possesses the technical, financial, and managerial resources sufficient to provide the services requested;

b. Applicant's services will meet the service standards required by the Commission;

c. The provision of local services by Applicant will not adversely impact the availability of affordable local service;

d. Applicant, to the extent it is required to do so by the Commission, will participate in the support of universally available telephone service at affordable rates; and,

e. The provision of local services by Applicant will not adversely impact the public interest.

The demands of a competitive market are a better means to achieve affordability and quality of service than a monopoly environment. As competitors vie for market share, they will compete based upon price, innovation and customer service.

Those providers trust that offer consumers the most cost effective products will gain market share. In contrast, providers whose products do not meet the needs of consumers will lose market share and, ultimately, be eliminated from the industry.

Additionally, Covista's entry into the local exchange markets will not unreasonably prejudice or disadvantage any telephone service providers. Incumbent local exchange carriers presently serve a large majority of the local exchange customers in South Carolina. The major advantages of incumbency (i.e., ownership of the existing local network as well as access to, and long-standing relationships with, every local customer) constitute a substantial obstacle to new entrants. Moreover, exchange services competition will stimulate the demand for the services supplied by all local service carriers, including those of the incumbent LECs. Thus, in a competitive market, there will be increased potential for such LECs to generate higher revenues. Additionally, in a competitive market, incumbent providers will have market incentives to improve the efficiency of their operations, thereby reducing their costs and ultimately their profit margins. Finally, it is important to recognize that in a competitive market, incumbent LECs will derive revenues from both resellers of their local exchange services as well as facilities based competitive local exchange providers.

Currently, South Carolina consumers have a limited choice with regard to the provision of local exchange telecommunications service. A competitive local service market comprised of incumbents and competitive providers such as Covista will offer consumers a competitive option and, therefore, will better satisfy the needs of various market segments. In this regard, approval of this Application is clearly in the public interest.

V. Description of Services Offered and Service Territory

For informational purposes, Covista has filed with this Application an illustrative price list based on Covista's current expectations regarding local services. (Exhibit "E"). Covista expects to offer a full array of services to both business and residential customers, including the following:

A. Local Exchange Services for business and residence telecommuter customers that will enable customers to originate and terminate local calls in the local calling area served by other LECs.
B. Switched local exchange services, including basic service, trunks, carrier access, and any other switched local services that currently exist or will exist in the future.
C. Non-switched local services (e.g., private line) that currently exist or will exist in the future.
D. Centrex and/or Centrex-like services that currently exist or will exist in the future.
E. Digital subscriber line, ISDN, and other high capacity services.

Prior to providing local exchange services to the public in South Carolina, Covista will file a complete Final Tariff and/or Price List with the Commission. Furthermore, Applicant submits contemporaneously with this application its proposed tariff for local exchange service (Exhibit E), which contains a description of services to be provided, all rules and regulations applicable to such services, and proposed rates for such services.

VI. Waivers and Regulatory Compliance

Covista requests that the Commission grant it a waiver of those regulatory requirements inapplicable to competitive local service resellers such as Covista. Such rules are not appropriate or necessary for competitive providers and constitute an economic barrier to entry into the local exchange market.

1. Financial Record-Keeping System

a. Covista respectfully requests that it be exempt from any record-keeping rules or regulations that might require a carrier to maintain its financial records in conformance with the Uniform System of Accounts ("USOA"). The USOA was developed by the FCC as a means of regulating telecommunications companies subject to rate base regulation.

b. As a competitive carrier, Covista maintains its book of accounts in accordance with Generally Accepted Accounting Principles ("GAAP"). Neither the FCC, nor the Commission, has required Covista to maintain its records under the USOA for purposes of Covista's intrastate operations. Thus, Covista does not possess the detailed cost data required by USOA, nor does it maintain detailed records on a state-specific basis. As a competitive provider, Covista's network operations are integrated to achieve maximum efficiency. Having to maintain records pertaining specifically to its South Carolina local service operations would place an extreme burden on Covista.

c. Moreover, Covista asserts that because it utilizes GAAP, the Commission will have a reliable means by which to evaluate Covista's operations. Therefore, Covista hereby respectfully requests to be exempt from the any USOA requirements of the Commission.

d. In addition, the Company hereby respectfully requests a waiver of 26 S.C. Code & Ann. Regs. 103-610, which requires books and records to be kept in the State of South Carolina, but rather, the Company desires to keep its books and records at its principal place of business.

2. Local Exchange Directories

Applicant respectfully requests a waiver of the requirement in Rule 103-631 to publish and distribute local exchange directories. Covista will make arrangements with the incumbent LECs whereby the names of Covista's customers will be included in the directories published by the incumbent LECs. LEC directories will also be modified to include Covista's customer service number. These directories will be distributed to Covista's customers. This approach is entirely reasonable and will have a direct benefit to the customers of both Covista and the incumbent LEC since they need only refer to one directory for a universal listing of customer information. It would be an unnecessary burden on Covista to require that it publish and distribute its own directory to all customers located within each exchange area, particularly since nearly all of these customers will be customers of the incumbent LECs. It is more efficient for Covista to simply include its limited customer list in the existing directories of the incumbent LECs.

3. Flexible Regulation of Local Services Applicant respectfully requests that its local service offerings be regulated in accordance with procedures authorized for NewSouth Communications in Order No. 98-165 in docket No. 97-467-C.

4. **Marketing Practices**

Pursuant to the South Carolina Public Service commission's Order No. 95-658 (issued March 20, 1995), Applicant makes the following affirmation relating to the Applicant's provision of services:

As a telephone utility under the regulation of the Public Service Commission of South Carolina, Carrier does hereby assert and affirm that as a reseller of intrastate telecommunications service, Carrier will not indulge or participate in deceptive or misleading telecommunications marketing practices to the detriment of consumers in South Carolina, and will comply with those marketing procedures, if any, set forth by the Public Service Commission. Additionally, Carrier will be responsible for the marketing practices of its contracted telemarketers for compliance with this provision. Carrier understands that violation of this provision could result in a rule to show cause as to the withdrawal of its certification to complete intrastate telecommunications traffic within the state of South Carolina.

5. **Maps**

Applicant's local exchange calling areas will initially mirror the service areas of the incumbent local exchange carriers, therefore, Applicant hereby respectfully requests a waiver of the map-filing requirement pursuant to Commission Rule 103-612.2.3.

VII. <u>Conclusion</u>

This Application demonstrates that Covista, Inc., possesses the technical, financial and managerial resources to provide resold and facilities-based/UNE-P local exchange service in the State of South Carolina. Furthermore, granting this Application will promote the public interest by increasing the level of competition in the South Carolina telecommunications market. Ultimately, competition will compel all exchange telecommunications service providers to operate more efficiently and pass the resultant cost savings on to consumers. In addition, as a result of competition, the overall quality of local exchange service will improve. As stated above, Applicant does not intend to provide local service, by its own facilities or otherwise, to any customer located in a rural incumbent LEC's service area, until Applicant provides such LECs notice of intent at least 30 days prior to the date of the intended service.

Wherefore, Covista, Inc., respectfully petitions this Commission for authority to operate as a reseller and facilities-based/UNE-P local exchange telecommunications services in the State of South Carolina and for local service offerings to be regulated in accordance with procedures authorized for NewSouth Communications in Order No. 98-165 in docket No. 97-467-C, , in accordance with this Application and for such other relief as it deems necessary and appropriate.

Respectfully submitted,

Covista, Inc.

Lance J.M. Steinhart, Esq.
Lance J.M. Steinhart, PC
1720 Windward Concourse, Suite 250
Alpharetta, Georgia 30005
(770)232-9200

and

Scott Elliott
721 Olive Street
Columbia, SC 29205
(803) 771-0555

Attorneys for Applicant

June 20, 2003
Columbia, South Carolina

VERIFICATION OF APPLICANT

I, A. John Leach, President to Covista, Inc., a New Jersey Corporation, the applicant for a Certificate of Public Convenience and Necessity from the Public Service Commission of the State of South Carolina, verify that based on information and belief, I have knowledge of the statements in the foregoing Application, and I declare that they are true and correct.

A. John Leach
President
Covista, Inc.

Sworn to me, the undersigned
Notary Public on this
21st day of March, 2003.

State of Tennessee
County of Hamilton

Michelle Graham
Notary Public

EXHIBIT "A"
ARTICLES OF INCORPORATION, AS AMENDED

CERTIFICATE OF INCORPORATION

OF

MANSOL CERAMICS COMPANY

This is to certify that we, the undersigned, do hereby associate ourselves in a corporation under and by virtue of the provisions of an Act of the Legislature of the State of New Jersey, entitled, "An Act Concerning Corporations," (Title 14 of the Revised Statutes of 1937) and do severally agree to take the number of shares of capital stock set opposite our respective names.

FIRST: The name of the corporation is

MANSOL CERAMICS COMPANY

SECOND: The location of the principal office in this State is:

744 Broad Street
City of Newark
County of Essex

The name of the agent therein in charge thereof upon whom process against this corporation may be served is:

NATHAN RAVIN

THIRD: The objects for which the corporation is formed are:

(a) To engage in the business of compacting, pressing and sintering powdered material, and to develop, manufacture, produce, sell, buy and exchange same. develop, manufacture, produce, sell, buy, purchase, [illegible] nange all types of electronic components, devises, mechanism of every nature and description, or any product, device, component or element used in connection therewith, including, but not by way of limitation, any and all types of ceramic devices, components or elements, and for any other purpose that the Board of Directors may deem advisable for the corporation to engage in.

(k) To purchase, hold, reissue and sell the shares of its own capital stock, provided that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

(l) To conduct business in any of the States, territories, possessions or dependencies of the United States, in the District of Columbia, and in any and all foreign countries, and to have one or more offices therein and to hold, purchase, mortgage and convey real and personal property therein without limit as to amount, but always subject to the laws of such state, territory, possession, dependency or country.

(m) In general, to carry on other business in connection with the foregoing, and to have and exercise all the powers conferred by Title 14, Corporations, General Revised Statutes of New Jersey, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do, and in any part of the world.

FOURTH: The By-Laws of this corporation shall be made, altered and amended by a majority vote of the directors of the corporation present at any meeting at which a quorum is present as prescribed in the said By-Laws.

FIFTH: The total authorized capital stock of this corporation is One Hundred Thousand ($100,000.00) Dollars divided into one thousand (1000) shares of a par value of One Hundred ($100.00) Dollars each.

(a) All or any part of the shares of common stock may be issued by the corporation from time to time, and for such consideration as may be determined and fixed by the Board of Directors as provided by law.

(b) No stockholder shall have pre-emptive rights in the stock of this corporation.

SIXTH: Any person made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was a director or officer of the Corporation, or of any corporation which he served as such at the request of the Corporation, shall be and by virtue of the enactment of this By-Law is hereby indemnified by the Corporation aga. nst the reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in defending himself in such action, suit or legal proceeding, or in any appeal therein, except in relation to matters as to which such officer or director is liable for negligence or misconduct in the performance of his duties. Such right to indemnification shall exist whether or not such person continues to be a director or officer of the Corporation or of such other corporation at the time such expenses are incurred. As used in this Article, reasonable expenses shall include, in addition to any other costs which may be imposed upon or reasonably incurred by such director or officer, the amounts of judgments or amount paid in settlement by such officer or director, but shall not include any expenses incurred by such director or officer in connection with a matter which shall have been the subject of such action, suit or legal proceeding, disposed of otherwise than by adjudication on the merits, unless in relation to such matter such director or officer shall not have been liable for negligence or misconduct in the performance of his duties as such director or officer. The right to indemnity and the amount payable by way of indemnity shall be determined and paid in accordance with Section 14:3-4 of the Revised Statutes of the State of New Jersey.

SEVENTH: The names and post office addresses of the incorporators and the number of shares subscribed for by each, the aggregate of which $3,000.00 of common stock is the amount of capital stock with which this company will commence business are as follows:

JEAN STURITS	4 McGinnis Road Metuchen, New Jersey	10 shares
CECILIA P. McCORMICK	393 Seventh Avenue Newark, New Jersey	10 shares
ZELMA RAVEN	82 Goldsmith Avenue Newark, New Jersey	10 shares

EIGHTH: The period of existence of this corporation is unlimited.

IN WITNESS WHEREOF, we have hereunto set our hands and seals this 8th day of March, 1960.

Jean Sturits L.S.
JEAN STURITS

Cecilia P. McCormick L.S.
CECILIA P. McCORMICK

Zelma Raven L.S.
ZELMA RAVEN

Signed, Sealed and
Delivered in the
Presence of

David N. Ravin
DAVID N. RAVIN

STATE OF NEW JERSEY:
SS.
COUNTY OF E S S E X:

BE IT REMEMBERED, that on this 8th day of March, 1960, before me, the subscriber, personally appeared JEAN STUBITS, CECILIA P. McCORMICK, and ZELMA RAVEN, who, I am satisfied, are the persons named in and who executed the foregoing certificate, and, I having first made known to them the contents thereof, they did acknowledge that they signed, sealed and delivered the same as their voluntary act and deed for the uses and purposes therein expressed.

David H. Ravin

DAVID H. RAVIN
Attorney at Law of New Jersey

CERTIFICATE OF MERGER
of
MANSOL DEVELOPMENT CORPORATION

1. In accordance with Title 14A of the New Jersey Statutes, N.J.S. 14A:10-4, as amended, as made and provided, the corporation submits the following Plan of Merger, annexed hereto as Schedule "A", and made a part hereof, by reference as though set forth at length.

2. The number of shares outstanding and entitled to vote in favor of said Plan of Merger, are as follows:

(a) Mansol Ceramics Company, 30 shares outstanding, all voting stock. 30 shares voted unanimously in favor of the Plan of Merger.

(b) Mansol Development Corporation, 200 shares outstanding, voting stock. 200 shares voted unanimously in favor of the Plan of Merger.

3. Said merger was approved by the Board of Directors unanimously, of both corporations.

4. The merger shall become effective in accordance with the Plan of Merger, annexed hereto as Schedule "A", at the time of its filing with the Secretary of State.

5. This is to certify that the foregoing constitutes the Plan of Merger, as annexed, its unanimous approval by the Directors and stockholders of the respective corporations, and the date that it shall become effective.

ATTEST:

Leonard W. Burrell
Secretary

President

Dated: January 6, 1970

The principal office of the corporation is located at 140 Little Street, Belleville, County of Essex, State of New Jersey. 07109

AGREEMENT OF MERGER, dated the 6th day of January, 1970, by and between MANSOL DEVELOPMENT CORPORATION, a corporation organized under the laws of the State of New Jersey, hereinafter called "DEVELOPMENT", and MANSOL CERAMICS COMPANY, a corporation, organized under the laws of the State of New Jersey, hereinafter called "CERAMICS"

The authorized capital stock of Development consists of 1000 shares, Class A common non-par value voting stock, of which 200 shares are issued and outstanding; and 1500 shares of Class B common non-par value, non-vot [illegible], no shares of which are issued and outstanding.

Auth Cap Stock

The authorized capital stock of Ceramics consists of 30 shares of non-par voting stock of which 30 shares are issued and outstanding. Upon the effective date of the merger, hereinafter provided for, there shall be 1000 shares of non-par voting common stock to be issued and outstanding.

The Boards of Directors of Development and Ceramics, respectively, deem it desirable and in the best interest of the corporations and their stockholders that Development be merged into Ceramics and the corporations respectively desire that they so merge under and pursuant to the laws of the State of New Jersey, as made and provided.

Now, therefore, in consideration of the premises and of the mutual covenants and agreements herein set forth and for the purpose of prescribing the terms and conditions of such merger, the parties hereto covenant and agree as follows:

1. As soon as all the following events shall have happened, viz.,

(a) This Agreement shall have been adopted and approved by the votes of the holders of all of the outstanding capital stock of Ceramics and Development, in accordance with the requirements of the laws of the State of New Jersey, as made and provided, and that fact shall have been certified hereon by the respective secretaries or assistant secretaries of each of such corporations under their respective corporate seals; and

(b) This Agreement, so adopted and certified, shall have been signed, acknowledged and filed, all as required by the provisions of Title 14A of New Jersey Statute, (General Corporation Act of the State of New Jersey, as amended), as made and provided.

(c) A Certificate of Merger shall be executed on behalf of each corporation and shall be filed in the Office of the Secretary of State of New Jersey, in accordance with Title 14A; 10-4 of the New Jersey Statutes, as amended;

thereupon Development shall be deemed to have merged with and into Ceramics which shall survive the merger and which shall have the name provided in paragraph 2 hereof.

The single corporation which shall so survive the merger is hereinafter sometimes called the Surviving Corporation; Development and Ceramics are hereinafter sometimes called the Constituent Corporations; and the date and time when the Constituent Corporations shall merge and become the Surviving Corporation are hereinafter referred to as "the effective date of the merger".

2. The name of the Surviving Corporation shall be Mansol Ceramics Company. The purposes for which the Surviving Corporation is formed and the nature of the business to be transacted by it shall be as set forth in the Act of Incorporation of

of Ceramics, as amended on the effective date of the merger.

3. On the effective date of the merger, the Act of Incorporation of Ceramics, as amended to date and as it will be amended by the Amendment-Articles of Consolidation filed in New Jersey, shall be the Act of Incorporation of the Surviving Corporation until further amended as provided by law.

4. On the effective date of the merger, the By-laws of Ceramic, as heretofore amended, shall be the By-laws of the Surviving Corporation until the same shall be altered, amended, or repealed, or until new By-laws shall be adopted, in accordance with the provisions thereof.

5. The Board of Directors of the Surviving Corporation shall consist of four (4) directors, and shall hold office until the next annual meeting of the stockholders of the Surviving Corporation, and until his successor shall have been duly elected and shall have qualified, or until his earlier death, resignation, or removal. The respective names, places of residence, and addresses of such directors are as follows:

Bernard P. Birnbaum Chairman	200 Powers Building Rochester, New York 14614
Saul I. Birnbaum Director	65 West 55th Street New York, New York 10019
Sol Feldman Director	1313 Mercedes Street Teaneck, New Jersey 07666
Manny Brucker, Director	51 Richard Drive Short Hills, New Jersey 07078

The principal officers of the Surviving Corporation, each of whom shall hold office until his successor shall have been duly elected or appointed and shall have qualified or until his earlier death, resignation, or removal, and their respective offices, places of residence, and post office addresses, are as follows:

Bernard F. Birnbaum Chairman of the Board	200 Powers Building Rochester, N. Y. 14614
Manny Brucker President	51 Richard Drive Short Hills, N. J. 07078
Sol Feldman Treasurer	1313 Mercedes Street Teaneck, N. J. 07666
Leonard W. Burrell Secretary	38 Crescent Terrace Belleville, N. J. 07109

6. On the effective date of the merger, the total amount of capital stock of the Surviving Corporation to be authorized, the number of shares into which the capital stock is to be divided, and the par value of the shares are as follows:

1000 shares authorized non-par voting common stock; 965 shares thereon to be issued to the present stockholders of Ceramics, 35 shares thereof to be issued to the present stockholders of Development. The Certificate of Incorporation of the Surviving Corporation shall be deemed amended in accordance with the terms and provisions hereof.

It is acknowledged and confirmed by the Board of Directors of the respective corporations that Faradyne Electronics Corp. is the stockholder of 100% of the issued and outstanding capital stock of Development and Ceramics and accordingly will be the owner of 100% of the issued and outstanding capital stock of Surviving Corporation.

7. Upon the issuance of the shares of capital stock as provided hereinabove, in exchange for the shares of Development and Ceramics in the Surviving Corporation, the shares so surrendered to the Surviving Corporation shall be cancelled of record and appropriately marked in the stock ledger of the respective

corporations.

8. On the effective date of the merger Development shall cease to exist separately and shall be so merged with an into Ceramics in accordance with the provisions of the Agreement and in accordance with the provisions of and with the effect provided in Title 14A of the New Jersey Statutes (New Jersey Corporation Act), as amended, as made and provided. As provided therein, on the effective date of the merger, the Surviving Corporation shall possess all the rights, privileges, powers, franchises and trust and fiduciary duties, powers, and obligations, as well of a public as of a private nature, and be subject to all the restrictions, disabilities, and duties of each of the Constituent Corporations, and all and singular, the rights, privileges, powers, duties, and obligations, of each of the Constituent Corporations; and all property, real, personal, and mixed, and all debts due to either of the Constituent Corporations on whatever account, as well for stock subscriptions as all other things in action or belonging to each of the Constituent Corporations shall be vested in the Surviving Corporation; and all property, rights, privileges, powers, and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of the respective Constituent Corporations; and the title to any real estate, whether vested by deed or otherwise, in either of the Constituent Corporations shall not revert or be in any way impaired by reason of the merger; provided, however, that all rights of creditors and all liens upon any property of either of the Constituent Corporations shall be preserved unimpaired, and all debts, liabilities, and

duties of the respective Constituent Corporations shall thenceforth attach to the Surviving Corporation, and may be enforced against it to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Surviving Corporation.

9. From time to time, as and when requested by the Surviving Corporation or by its successors or assigns, Development w[illegible] execute and deliver, or cause to be executed and delivered [illegible] all such deeds and other instruments; and will take or cause to be taken such further or other action as the Surviving Corporation may deem necessary or desirable in order to vest in and confirm to the Surviving Corporation title to and possession of all its property, rights, privileges, powers, and franchises and otherwise to carry out the intent and purposes of this Agreement.

10. The location of the principal office of the Surviving Corporation shall be 140 Little Street, Belleville, New Jersey. Registered agent Sol Feldman

11. The Surviving Corporation hereby reserves the right to amend, alter, change, or repeal any provision contained in its Act of Incorporation, as from time to time amended, and any provision contained in the Agreement, in the manner now or hereafter prescribed by law or by such Act, as from time to time amended; and all rights and powers of whatsoever nature conferred in such Act of Incorporation, as from time to time amended, or herein, upon any stockholder, director, officer, or any other person are subject to this reservation.

IN WITNESS WHEREOF, Mansol Ceramics Company and Mansol

Development Corporation, have caused this Agreement to be signed in their corporate names by their respective Presidents or Vice-Presidents and their respective Secretaries or Assistant Secretaries under the seals of the corporations, all as of the day and year first above written.

Attest: MANSOL CERAMICS COMPANY

Leonard W. Burrell By Morris Bushman

Secretary President

Attest: MANSOL DEVELOPMENT CORPORATION

Leonard W. Burrell By Morris Bushman

Secretary President

CERTIFICATE OF SECRETARY OF MANSOL CERAMICS
COMPANY, a corporation

This is to certify, as Secretary of MANSOL CERAMICS COMPANY, that the foregoing Agreement was adopted by a majority of the stockholders and directors of the corporation, on the 6th day of January, 1970.

Leonard W. Burrell
Secretary

CERTIFICATE OF SECRETARY OF MANSOL DEVELOPMENT CORPORATION, a corporation

This is to certify, as Secretary of MANSOL DEVELOPMENT CORPORATION, that the foregoing Agreement was adopted by a majority of the stockholders and directors of the corporation, on the 6th day of January, 1970.

Secretary

STATE OF NEW JERSEY:
SS:
COUNTY OF Essex :

BE IT REMEMBERED that on this 22nd day of January in the year One Thousand Nine Hundred and Seventy, before me, the subscriber, a Notary Public of New Jersey personally appeared Leonard W. Burrell who, being by me duly sworn on his oath, doth depose and make proof to my satisfaction, that he is the Secretary of Mansol Development Corporation, that Manny [illegible] named in the within Instrument is the President of said corporation; that the execution, as well as the making of this Instrument has been duly authorized by a proper resolution of the Board of Directors of said corporation; that deponent well knows the corporate seal of said corporation; and the seal affixed to said Instrument is such corporate seal and was thereto affixed and said Instrument signed and delivered by said President, as and for his voluntary act and deed and as and for the voluntary act and deed of said corporation, in presence of deponent, who thereupon subscribed his name thereto as witness.

Leonard W. Burrell
Secretary

Sworn and subscribed before me,
at Newark, N.J.
the date aforesaid

Ethel Lee
A Notary Public of New Jersey

ETHEL LEE
NOTARY PUBLIC OF NEW JERSEY
My Commission Expires Nov. 7, 1974

JOINT RESOLUTION OF BOARD OF DIRECTORS
and STOCKHOLDERS
OF
MANSOL CERAMICS COMPANY

At a special joint meeting of the Board of Directors of Mansol Ceramics Company, and upon motion made and duly carried, it was unanimously resolved that the following resolution be approved:

"BE IT RESOLVED, that the corporation be and hereby is authorized to act upon a Plan of Merger between Mansol Ceramics Company and Mansol Development Corporation, and the amendment of the Certificate of Incorporation, in accordance with the provisions of the Plan of Merger, and be it further

RESOLVED, that the President of the corporation be authorized to execute the Agreement of Merger, dated the 6th day of January, 1970, and to execute such other and further documents and Certificates as may be required".

Leonard W. Birrell
Secretary

JOINT RESOLUTION OF BOARD OF DIRECTORS
and Stockholders
of
MANSOL DEVELOPMENT CORPORATION

At a special joint meeting of the Board of Directors of Mansol Development Corporation, and upon motion made and duly carried, it was unanimously resolved that the following resolution be approved:

"BE IT RESOLVED, that the corporation be and hereby is authorized to act upon a Plan of Merger between Mansol Development Corporation and Mansol Ceramics Company, and the amendment of the Certificate of Incorporation, in accordance with the provisions of the Plan of Merger, and be it further

RESOLVED, that the President of the corporation be authorized to execute the Agreement of Merger, dated the 6th day of January, 1970, and to execute such other and further documents and Certificates as may be required".

Lionel W. Burrell
Secretary

Y93199

FILED AND RECORDED

JAN 23 1970

Paul J. Sherwin
SECRETARY OF STATE

LICENSE FEE	none
FILING FEE	25.00
RECORDING	18.00
CERTIFYING COPY	—
SEC. OF STATE	10.00
TC-	$53.00

Ind copy to
Sol Feldman
140 Little St
Belleville NJ 07109

5-102

N/C

NCB

FILED

MAR 1 1994

LONNA R. HOOKS
Secretary of State

0919636

AMENDED CERTIFICATE OF INCORPORATION
OF
MANSOL CERAMICS COMPANY

The undersigned hereby certifies that the following is an amendment to the certificate of incorporation of Mansol Ceramics Company(same being originally filed March 9, 1960), duly authorized by a vote of the shareholders all in accordance with N.J.S.A. 14A:9-2(4). In accordance with the requirements of N.J.S.A. 14A:9-4(a), the following information is set forth:

FIRST: The name of the corporation is Mansol Ceramics Company.

SECOND: The Certificate of Incorporation filed March 9, 1960 is hereby amended to change the name of the corporation to

TOTALTEL INC.

THIRD: On February 4, 1994, Total-Tel USA Communications, Inc., the sole shareholder in the corporation, by unanimous consent of its Board of Directors, consented to the above amendment.

FOURTH: The effective date of this amendment shall be the date of the filing hereof.

IN WITNESS WHEREOF, the undersigned being duly authorized by the Board of Directors, and with the consent of the sole shareholder, does hereby set his hand and seal this 17 day of February, 1994.

ATTEST:

MANSOL CERAMICS COMPANY

WARREN H. FELDMAN
President &
Chief Executive Officer

5639180000
Y 093199

CGN

FILED

JUN 1 2000

State Treasurer
Roland Machold

C-102A Rev 12/93

New Jersey Department of the Treasury
Division of Revenue
Certificate of Amendment to the
Certificate of Incorporation
(For Use by Domestic Profit Corporations)

Pursuant to the provisions of Section 14A:9-2 (4) and Section 14A:9-4 (3), Corporations, General, of the New Jersey Statutes, the undersigned corporation executes the following Certificate of Amendment to its Certificate of Incorporation:

1. The name of the corporation is: TOTALTEL, INC.

2. The following amendment to the Certificate of Incorporation was approved by the directors and thereafter duly adopted by the shareholders of the corporation on the 30th day of May, 2000:

   Resolved, that Article FIRST of the Certificate of Incorporation be amended to read as follows:

   FIRST: The name of the corporation is Covista, Inc.

3. The number of shares outstanding at the time of the adoption of the amendment was: Not Applicable
   The total number of shares entitled to vote thereon was: Not Applicable

4. The number of shares voting for and against such amendment is as follows:

Number of Shares Voting for Amendment	Number of Shares Voting Against Amendment
Not Applicable	Not Applicable

BY: [signature]
A. John Leach, Jr.
President

Dated this 31st day of May, 2000

797402
1502100
1502101

5639180008

STATE OF NEW JERSEY

DEPARTMENT OF TREASURY

FILING CERTIFICATION (CERTIFIED COPY)

COVISTA, INC.

I, the Treasurer of the State of New Jersey, do hereby certify, that the above named business did file and record in this department the below listed document(s) and that the foregoing is a true copy of the

Certificate Of Incorporation
Certificate Of Merger
Certificate Of Amended
Certificate Of Amendment

as the same is taken from and compared with the original(s) filed in this office on the date set forth on each instrument and now remaining on file and of record in my office.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal at Trenton, this 24th day of July, 2000

Roland M Machold
Treasurer

EXHIBIT "B"
FOREIGN CORPORATION QUALIFICATION

The State of South Carolina

Office of Secretary of State Jim Miles

Certificate of Authorization

I, Jim Miles, Secretary of State of South Carolina Hereby certify that:

TOTALTEL INC.,

a corporation duly organized under the laws of the state of ***NEW JERSEY*** and issued a certificate of authority to transact business in South Carolina on **October 27th, 1997**, has on the date hereof filed all reports due this office, paid all fees, taxes and penalties owed to the Secretary of State, that the Secretary of State has not mailed notice to the Corporation that its authority to transact business in South Carolina is subject to being revoked pursuant to Section 33-15-310 of the 1976 South Carolina Code, and no application for surrender of authority to do business in South Carolina has been filed in this office as of the date hereof.

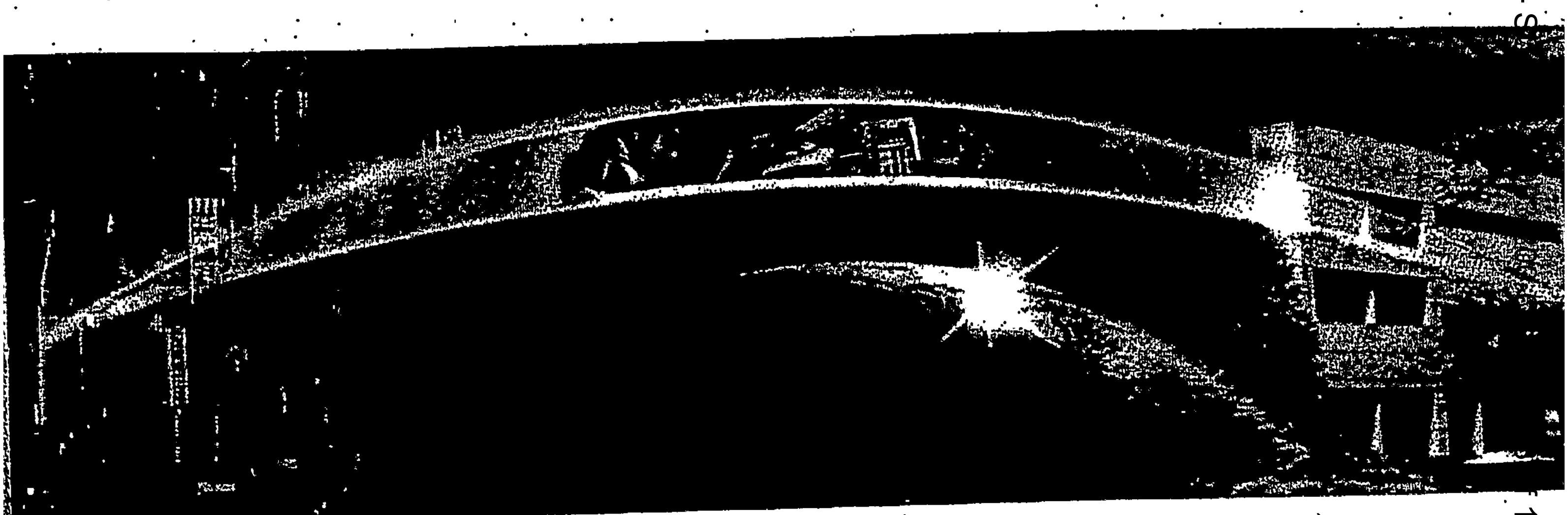
Given under my Hand and the Great Seal of the State at Columbia this 28th day of October, 1997.

David M. Beasley, Governor

Jim Miles, Secretary of State

EXHIBIT "C"
FINANCIAL INFORMATION

COVISTA
COMMUNICATIONS INC.



2002
Annual Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended January 31, 2002.

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ________ to ________.

Commission File Number 0-2180

COVISTA COMMUNICATIONS, INC.
(Exact name of Company as specified in its charter)

New Jersey (State or other jurisdiction of Incorporation or organization)	22-1656895 (I.R.S. Employer Identification No.)

4803 Highway 58 North, Chattanooga, TN 37416
(Address of principal executive offices)(Zip Code)

Company's telephone number, including area code: (423) 648-9700

Securities registered pursuant to Section 12 (b) of the Act:
None

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, $.05 par value per share

Indicate by check mark whether Covista Communications, Inc. ("Covista" or the "Company")(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Covista was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

Aggregate market value (based upon a $4.29 closing price) of the voting stock held by nonaffiliates of Covista as of April 30, 2002: $16,360,911

Number of shares of Common Stock outstanding on April 30, 2002: 12,636,949

Documents Incorporated By Reference:
None

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

Certain matters discussed in this Annual Report on Form 10-K are "forward-looking statements" intended to qualify for the safe harbor from liability provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Covista "believes", "anticipates", "expects", or words of similar import. Similarly, statements which describe Covista's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of this Report. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this Report and Covista undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

ITEM 1. Business

General

Covista was incorporated in 1959 as Faradyne Electronics Corp. In November 1991, Covista changed its name from Faradyne Electronics Corp. to Total-Tel USA Communications, Inc. In September, 2000, Covista adopted its present name, Covista Communications, Inc.

Covista is a long distance telecommunications, internet and data services provider. Covista operates two distinct business segments: retail and wholesale. The retail segment provides long distance, data and internet services to small and medium sized businesses, principally in the Northeast region of the United States. The wholesale segment sells long distance telecommunication services to other carriers for resale. Covista utilizes its own switching equipment and leased fiber optic transmission cable. Covista's products and services include a broad range of voice, data and Internet solutions, including long distance and toll-free services, calling cards, data, internet access, virtual private network, directory assistance and teleconferencing services. The wholesale division provides domestic and international termination services to carriers worldwide at competitive rates. Covista currently owns and operates three switches, one in New York City , one in Newark, New Jersey, and one in Philadelphia Pennsylvania and announced plans to expand to additional switch sites in Minneapolis, Dallas and Chattanooga. In July 2001, Covista announced that it had acquired long-term access to nationwide network facilities comprising 2,822,400,000 channel miles of telecommunications capacity measured by length of voice-grade circuits. In addition, Covista currently offers internet services using two routers that it owns and operates located in New York City and Northern New Jersey. Covista processes approximately 85 percent of all its call volume through its own facilities. Covista also operates a network operations center in Northern New Jersey to monitor and control its New Jersey network and to coordinate its various services. In October, 2001, Covista announced the opening of a new call center facility in Chattanooga, Tennessee, and that it is planning to relocate its corporate headquarters to Chattanooga from Little Falls, New Jersey. Covista previously was known as Total-Tel USA Communications, Inc.

In the retail market, Covista has segmented potential customers and tailored its service offerings, sales, marketing approach and network development to provide service in a cost-effective manner. Covista believes its customer service to be one of its principal competitive advantages. Covista applies a dedicated team approach to soliciting and servicing its clients, with substantial involvement of sales, customer service and technical personnel in all aspects of customer relations. Covista intends to continue to focus its efforts on small to medium-sized businesses with sales of $1 million to $60 million and monthly communications bills that range from $500 to $30,000. Covista's focus on customer service has also enabled it to attract larger customers. During the fourth quarter 2002, Covista continued expanding services into the residential retail market with a new product offering.

For Fiscal 2002, Covista had gross revenues of approximately $95 million, derived approximately 50% from wholesale and 50% from retail services. For Fiscal 2001, Covista's gross revenues were approximately $134 million. Covista's retail sales activities have been concentrated in Northern New Jersey and New York City, where, Covista believes, approximately half of all United States multinational corporations have headquarters. Based on industry sources, this area is believed to represent 40% of the total United States telecommunications market. For the near term, at least, Covista intends to continue its efforts on further penetrating commercial users of its services in the Northeast, from the Washington, D.C. market through Boston, Massachusetts, and to augment the services offered to its customers.

Covista's principal executive offices are located at 4803 Highway 58 North, Chattanooga, TN, 37416, and its telephone number is (423) 648-9700.

INDUSTRY OVERVIEW

History and Industry Development

Prior to 1984, AT&T dominated both the local exchange and long distance marketplaces by owning the operating entities that provided both local exchange and long distance services to most of the United States population. Although long distance competition began to emerge in the late 1970s, the critical event triggering the growth of long distance competition was the breakup of AT&T and the separation of its local and long distance businesses as mandated by the Modified Final Judgment (the "MFJ") relating to the breakup of AT&T. To foster competition in the long distance market, the MFJ prohibited AT&T's divested local exchange businesses, the Regional Bell Operating Companies ("RBOCs"), from acting as single-source providers of telecommunications services.

Although the MFJ established the preconditions for competition in the market for long distance services in 1984, the market for local exchange services has, until recently, virtually been closed to competition and has largely been dominated by regulated monopolies. Efforts to open the local exchange market began in the late 1980s on a state-by-state basis.

The Telecommunications Act of 1996, (the "1996 Act"), is considered to be the most comprehensive reform of the nation's telecommunications laws, affect the development of competition for local telecommunications services. The 1996 Act provides for the removal of legal barriers to entry into the local telecommunications services market, the interconnection of the Incumbent Local Exchange Carrier (the "ILEC") network with competitors' networks and the relaxation of the regulation of certain telecommunications services provided by Local Exchange Carriers ("LECs") and others. Procedures and requirements were established to be followed by the RBOCs, including the requirement that RBOCs offer local services for resale as a precondition to their entering the long distance and telecommunications equipment manufacturing markets.

The continuing deregulation of the telecommunications industry and technological change has resulted in an increasingly information-intensive business environment. Regulatory, technological, marketing and competitive trends have substantially expanded Covista's opportunities in the converging voice and data communications services markets. For example, technological advances, including rapid growth of the Internet, the increased use of packet switching technology for voice communications, and the growth of multimedia applications, are expected to result in substantial growth in the high-speed data services market.

This new market opportunity should permit Competitive Local Exchange Carriers ("CLECs") with operating and marketing expertise to offer a full range of telecommunications services, including local and long distance calling, toll-free calling, custom calling features, data services, and Internet access and services. Telecommunications companies with an established base of long distance customers may have an opportunity to sell additional services to such customers.

Covista has observed that RBOCs and the Tier I carriers (carriers with annual revenues in excess of $5 billion), primarily concentrate their sales and marketing efforts on residential and large business customers. Thus, Covista believes there is a significant market opportunity with respect to small and medium-sized businesses to which customer service may be a significant part of their buying decision. Covista has also entered the residential long distance business which Covista had not previously concentrated its marketing efforts.

Network

Covista's strategy has been to develop a geographic concentration of revenue-producing customers through the sale of telecommunications services in areas where it has installed switching platforms.

Current Network

Switches. Currently, Covista operates an advanced telecommunications network that includes three Alcatel switches, located in New York City, Newark, New Jersey and Philadelphia, Pennsylvania. The Philadelphia switch was acquired from a merger with Capsule Communications (see Subsequent Events). Covista has installed Alcatel DEX 600 switches in Newark and Philadelphia and a Megahub DEX600E switch in New York, which provides interexchange switching capabilities and is currently being used as Covista's international gateway switching platform. Covista is installing three Alcatel DEX 600 switches, one in Minneapolis, one in Dallas and one in Chattanooga which are scheduled to be operational in FY 2003.

In July 2001, Covista announced that it had acquired long-term access to nationwide network facilities comprising 2,822,400,000 channel miles of telecommunications capacity measured by length of voice-grade circuits.

During Fiscal 2002, Covista billed approximately 1.08 billion minutes, with approximately 85% of its minutes over its own switches. Covista believes that increasing the traffic carried on its own network would improve operating margins.

International. Covista is interconnected with a number of United States and foreign wholesale international carriers through its New York switch. The purpose of connecting to a variety of carriers is to provide state-of-the-art, lowest-cost routing and network reliability. These interconnected international carriers are also a source of wholesale international traffic and revenue.

Internet. Currently, Covista owns and operates an IP (Internet Protocol) Network that includes two Cisco 7500 routers, located in New York City. Covista also owns and operates an Ascend TNT remote access server (RAS) located in New York. The RAS provides dial-up Internet access services. Through associations with providers of wholesale Digital Subscriber Lines ("DSL"), Covista offers DSL Internet service in the Philadelphia, New York, New Jersey and Connecticut markets. Covista also offers internet services over dedicated DS0, DS1 and DS3 digital transmission circuits.

Other Features. Covista is interconnected by SS7 out-of-band digital signaling throughout its network. The SS7 signaling system reduces connect time delays, thereby enhancing overall network efficiencies. Additionally, the SS7 technology is designed to permit the anticipated expansion of Covista's Advanced Intelligent Network ("AIN") capabilities throughout its network. Covista's advanced switching platform would enable it to (i) deploy features and functions quickly throughout its entire network, (ii) expand switch capacity in a cost-effective manner, and (iii) lower maintenance costs through reduced training and spare parts requirements.

Security and Reliability. Covista has a Network Operating Center (NOC) in Northern New Jersey, which monitors and controls Covista's network and coordinates its various services from a central location, increasing the security, reliability and efficiency of Covista's operations. Centralized electronic monitoring and control of Covista's network allows Covista to avoid duplication of this function in each switch site. The NOC also helps reduce Covista's per-customer monitoring and customer service costs. In addition, Covista's network employs an "authorized access" architecture. Unlike many telecommunications companies, which allow universal access to their network, Covista utilizes an automatic number identification security screening architecture which ensures only the Automatic Number Identification (ANIs) of those users who have subscribed to Covista's services and have satisfied Covista's credit and provisioning criteria have access to the network. Covista believes that this architecture provides Covista the ability to better control bad debt and fraud in a manner which is invisible and nonintrusive to the customer. This architecture also allows Covista to better manage network capacity, as unauthorized and unplanned users cannot access the network. Covista plans to relocate the NOC to the Corporate Headquarters in Chattanooga TN in Fiscal Year 2003.

PRINCIPAL PRODUCTS AND SERVICES

Product and Service Offerings

Covista offers retail telecommunications services primarily to small and medium-sized businesses and residential long distance users. Covista's retail service offerings currently include long distance and toll-free services (both with and without an AIN), multiple access options, calling card, data, Internet access, DSL, e-mail,

Current Services

Retail Services. Covista provides telecommunications services to over 10,000 commercial customers, primarily small and medium-sized businesses located in the Northeastern region of the United States. Covista sells retail services through its independent marketing representatives. Retail commercial communications services accounted for approximately 50% of Covista's Fiscal 2002 revenues, and produced revenues of approximately $47,423,000 in Fiscal 2002 and $53,487,000 in Fiscal 2001. Retail revenues fell in fiscal 2002 due to continued downward pricing pressure and reductions in volume, which Covista attributes to ever increasing competition within the industry. In addition, the attack on the World Trade Center on September 11, 2001 had a direct negative impact on the retail sales of Covista due to damage to the switch located in New York City. While Covista believes that it may return to its previous volume levels, as the worldwide demand for communications services increases, it also believes that the intense competition for those minutes from other telecommunications providers will continue to force down prices. This continued downward effect on price may adversely affect operations.

Covista's retail services include the following:

- **Long Distance:** Covista offers a full range of switched and dedicated domestic and international long distance services, including "1+" outbound service in all 50 states along with global termination to over 200 countries. Long distance services include Intra-LATA (Local Access Terminating Area), Inter-LATA, and worldwide international services. Long distance features include both verified and non-verified accounting codes, station-to-station calling, third-party calling, directory assistance and operator-assisted calling.

- **Toll-free Services:** Covista offers a full range of switched and dedicated domestic toll-free services, including toll-free origination in all 50 states, international toll-free origination from over 30 countries, and toll-free directory assistance. AIN enhanced toll-free services include the following features: Command Routing, Dialed Number Identification Service Area Code/Exchange Routing, Real Time Automatic Number Identification Delivery, Day-of-Year Routing, Day-of-Week Routing, Time-of-Day Routing, Percentage Allocation Routing, PIN protected 800 services, integrated voice response services and store locator services.

- **Access Options:** Covista offers its long distance and toll-free customers multiple access options, including dedicated access at DS0, DS1, and DS3 speed(s) and switched access.

- **Calling Card and Services:** Covista offers nationwide switched access, customized calling card services. Customers have the option of calling cards, which are personalized, branded or generic.

- **Internet:** Covista currently offers high-quality, dedicated DSL and dial-up Internet access, e-mail, IP addressing and Domain Name Services.

- **Data Services:** Covista offers advanced data transmission services, including private line and Frame Relay services. Data services have multiple access options, including dedicated access at DS0, DS1, and DS3 speed(s) and switched access.

- **Customer Management Control Features:** All of Covista's customers have the option of customized management reporting features, including interstate/intrastate area code summaries, international destination matrix, daily usage summaries, state summaries, time of day summaries, duration distribution matrix, exception reporting of long duration calls, and incomplete and blocked call reporting.

Wholesale Services. Covista offers the following wholesale services: domestic and international termination, switch ports, colocation facilities and transport services to a broad spectrum of domestic and international carriers. Covista offers international wholesale termination and transport services primarily to domestic and international telecommunications carriers. Once Covista interconnects with a carrier customer, the carrier may utilize Covista on an as-needed basis, depending upon the pricing offered by Covista and its competitors as well as capacity. Covista has been tested and approved as an authorized carrier for, and included in the routing tables of all of its long distance and international carrier customers. Covista's wholesale results were severely affected by the September 11 terrorist attack. The Company suffered the temporary loss of its New York City switch, which is situated in the immediate vicinity of the World Trade Center. As a result, Covista incurred a significant reduction in wholesale revenues. The impact of the revenue loss, combined with additional expenses, was in excess of approximately $5,000,000. Covista has filed an insurance claim for losses and expenses associated with the events of September 11, and received an initial $1,000,000 in the FY 2002. The total claim and final settlement cannot be determined at this time. Wholesale revenues were approximately $47,889,000 and $79,743,000 during

CUSTOMER BASE

Telecommunications Services Market

Overview of the United States Market. The United States market for telecommunications services can be divided into four basic service sectors: long distance, local exchange, Internet access and international.

Long Distance Services. A long distance telephone call can be envisioned as consisting of three segments. Starting with the originating customer, the call travels along a local exchange network to a long distance carrier's point of presence ("POP"). At the POP, the call is combined with other calls and sent along a long distance network to a POP on the long distance carrier's network near where the call will terminate. The call is then sent from this POP along a local network to the terminating customer. Long distance carriers provide only the connection between the two local networks; and, unless the long distance carrier is a local service provider, pay access charges to LECs for originating and terminating calls.

Local Exchange Services. A local call is one that does not require the services of a long distance carrier. In general, the local exchange carrier connects end-user customers within a locally defined area known as a Local Access and Transport Area or "LATA" and also provides the local access (ingress and egress) of most long distance calls.

Internet Service. Internet services are generally provided in at least two distinct segments. A local network connection is required from the Internet Service Provider ("ISP") customer to the ISP's local facilities. For large, communication-intensive users and for content providers, the connections are typically unswitched, dedicated connections provided by LECs, Intelligent Call Processing ("ICP"), or other providers, either as independent service providers or, in some cases, by a carrier that is both a Competitive Local Exchange Carrier (CLEC) and an Internet Service Provider (ISP). For residential and small and medium-sized business users, these connections are generally Public Switched Telephone Network ("PSTN") connections obtained on a dial-up access basis as a local exchange telephone call. Once a local connection is made to the ISP's local facilities, information can be transmitted and obtained over a packet-switched IP data network, which may consist of segments provided by many interconnected networks operated by a number of ISPs. The collection of interconnected networks makes up the Internet. A key feature of Internet architecture and packet switching is that a single dedicated channel between communication points is never established which distinguishes Internet-based services from the PSTN.

International Service. A typical international long distance call originates on a local exchange network or private line and is carried to the international gateway switch of a long distance carrier. The call is then transported along a fiber optic cable or a satellite connection to an international gateway switch in the terminating country and, finally, to another local exchange network or private line where the call is terminated. Generally, only a small number of carriers are licensed by a foreign country for international long distance and, in many countries, only the Postal Telephone & Telegraph administration ("PTT") is licensed or authorized to provide international long distance service. Any carrier which desires to transport switched calls to or from a particular country, in addition to obtaining a license or other permission (if required), must enter into operating agreements or other arrangements with the PTT or another international carrier in that country or lease capacity from a carrier which already has such arrangements.

Market Opportunities

As a result of the 1996 Act and other Federal, state, and international initiatives, numerous telecommunications markets have been opened to competition. In addition, the increasing globalization of the world economy, along with increased reliance upon data transmission and Internet access, has expanded traditional telecommunications markets. Covista has targeted its services principally to small and medium-sized businesses based upon its belief that such customers are not aggressively targeted by Tier I providers and are underserved with respect to customer service and support. Also, Covista, through a recently introduced product offering, is targeting residential long distance users with competitive rates for domestic and international long distance usage.

COMPETITION

Overview

Covista operates in a highly competitive industry and estimates that it has no greater than a 1% share of the market in which it operates. Covista expects that competition will continue to intensify in the future due to regulatory changes, including the continued implementation of the 1996 Act, and further increases in the size, resources, and number of market participants. In each of its markets, Covista will face competition from larger, better capitalized Tier I and Tier II providers and ILECs and CLECs. While new business opportunities may be made available to Covista through the 1996 Act and other federal and state regulatory initiatives, regulators are likely to provide ILECs with an increased degree of flexibility with regard to pricing of their services as competition increases.

Competition for Covista's products and services is based upon price, quality, the ability to bundle services, name recognition, network reliability, service features, billing services, perceived quality and responsiveness to customers' needs. While Covista believes that it currently has certain advantages relating to price, quality, customer service and responsiveness to customer needs, there is no assurance that Covista will be able to maintain these advantages or obtain additional advantages. A continuing trend toward business combinations and alliances in the telecommunications industry may create significant new competitors to Covista. Many of Covista's existing and potential competitors have financial, technical, and other resources significantly greater than those of Covista. In addition, in December, 1997, the FCC issued rules to implement the provisions of the World Trade Organization Agreement on Basic Telecommunications, which was drafted to liberalize restrictions on foreign ownership of domestic telecommunications companies and to allow foreign telecommunications companies to enter domestic markets. The new FCC rules went into effect in February, 1998 and are expected to make it substantially easier for many non-United States telecommunications companies to enter the United States market, thus further increasing the number of competitors. The new rules will also give non-United States individuals and corporations greater ability to invest in United States telecommunications companies, thus increasing the financial and technical resources potentially available to existing and potential competitors as well as Covista.

Long Distance Market

The long distance telecommunications industry is highly competitive and affected by the introduction of new services by, and the market activities of, major industry participants. Covista competes against various national and regional long distance carriers, including both facilities-based providers and switchless resellers offering essentially the same services as Covista. In addition, significant competition is expected to be provided by ILECs including RBOCs. Recently, Verizon, the RBOC for Covista's region, has been authorized to provide long distance services in certain states. Covista's success will depend upon its ability to provide high-quality services at prices competitive with, or lower than, those charged by its competitors. In addition, a high level of customer attrition or "churn" has characterized the long distance industry. Such attrition is attributable to a variety of factors, including initiatives of competitors as they engage in advertising campaigns, marketing programs, and provide cash payments or other incentives. End users are often not obligated to purchase any minimum usage amount and can discontinue service without penalty at any time. Covista's revenue has been, and is expected to continue to be, affected by churn.

Tier I providers and other carriers have implemented new price plans aimed at residential customers with significantly simplified rate structures, which may have the impact of lowering overall long distance prices. There can also be no assurance that long distance carriers will not make similar offerings available to the small to medium-sized businesses, which Covista primarily serves. While Covista believes that small and medium-sized business customers are not aggressively targeted by large long distance providers, such as the Tier I providers, there can be no assurance that Covista's customers and potential customers will not be targeted by these or other providers in the future. Additional pricing pressure may come from IP transport, which is a developing use of packet-switched technology which can transmit voice communications at a cost which may be below that of traditional circuit-switched long distance service. While IP transport is not yet available in all areas, its use requires the dialing of additional digits. While the service has generally produced sound quality inferior to traditional long distance service, it could eventually be perceived as a substitute for traditional long distance service. This, in turn, could put further pricing pressure on long distance rates. Any reduction in long distance prices may have a material adverse effect on Covista's business, financial condition and results of operations.

Some of Covista's principal competitors are also major suppliers of services to Covista. Covista both links its switching equipment with transmission facilities and services purchased or leased from these suppliers, and also resells services obtained from these suppliers. There can be no assurance that these suppliers will continue to offer services to Covista at competitive rates or on attractive terms, if at all, and any failure to do so could have a material adverse effect on Covista.

Seasonal Nature of Business

Company's business is not seasonal.

Patents, Trademarks, Licenses, etc.

Company does not hold any material patents, franchises or concessions.

GOVERNMENT REGULATIONS

Overview

Covista's services are subject to regulation by federal, state and local governmental agencies. The FCC exercises jurisdiction over all facilities and services of telecommunications common carriers to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory agencies retain jurisdiction over carriers' facilities and services to the extent they are used to originate or terminate intrastate communications. Municipalities and other local government agencies may require carriers to obtain licenses or franchises regulating use of public rights-of-way necessary to install and operate their networks. The networks are also subject to numerous local regulations such as building codes, franchises, and rights of way licensing requirements. Many of the regulations issued by these regulatory bodies may be subject to judicial review, the results of which Covista is unable to predict.

Federal Regulations - The 1996 Act

Statutory Requirements. The 1996 Act requires all LECs (including ILECs and CLECs, (i) not to prohibit or unduly restrict resale of their services; (ii) to provide local number portability; (iii) to provide dialing parity and nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listings; (iv) to afford access to poles, ducts, conduits, and rights-of-way; and (v) to establish reciprocal compensation arrangements for the transport and termination of local telecommunications traffic. It also requires ILECs to negotiate local interconnection agreements in good faith and to provide interconnection (a) for the transmission and routing of telephone exchange service and exchange access, (b) at any technically feasible point within the ILEC's network, (c) which is at least equal in quality to that provided by the ILEC to itself, its affiliates, or any other party to which the ILEC provides interconnection, and (d) at rates and terms and conditions which are just, reasonable and nondiscriminatory. ILECs also are required under the 1996 Act to provide nondiscriminatory access to network elements on an unbundled basis at any technically feasible point, to offer their local telephone services for resale at wholesale rates, and to facilitate colocation of equipment necessary for competitors to interconnect with or access Unbundled Network Elements ("UNEs").

The 1996 Act also eliminates the existing AT&T antitrust consent decree, which barred the provision of long distance services and manufacturing by the RBOCs. In addition, the 1996 Act requires RBOCs to comply with certain safeguards and offer interconnection which satisfies a prescribed 14-point competitive checklist before RBOCs are permitted to provide in-region inter-LATA services. These safeguards are designed to ensure that the RBOCs competitors have access to local exchange and exchange access services on nondiscriminatory terms and that the subscribers of regulated non-competitive RBOC services do not subsidize their provision of competitive services. The safeguards also are intended to promote competition by preventing RBOCs from using their market power in local exchange services in order to obtain an anti-competitive advantage in the provision of other services. RBOCs have the ability to provide out-of-region long-distance services and, if they obtain authorization and under prescribed circumstances, may provide additional in-region long-distance services. In December 1999, the FCC granted Bell Atlantic's (now Verizon) application to offer in-region long distance services in New York, marking the first time since the breakup of AT&T that an RBOC has been able to provide its customers with both local and long distance service.

The 1996 Act also granted important regulatory relief to industry segments which compete with CLECs. ILECs were given substantial new pricing flexibility. RBOCs also were granted new rights to provide certain cable TV services. Inter Exchange Carriers ("IXCs") were permitted to construct their own local facilities and/or resell local services. State laws may no longer require CATVs to obtain a franchise before offering telecommunications services nor permit CATVs' franchise fees to be based on their telecommunications revenue. In addition, under the 1996 Communications Act, all utility holding companies are permitted to diversify into telecommunications services through separate subsidiaries.

FCC Rules Implementing the Local Competition Provisions of the 1996 Act. In August 1996, the FCC released a First Report and Order, a Second Report and Order and a Memorandum Opinion and Order (combined, the "Interconnection Orders") which established a framework of minimum, national rules enabling state Public Utility Commissions ("PUCs") and Public Service Commissions ("PSCs"), and the FCC to begin implementing many of make available to competitors upon request and a methodology for states to use in establishing rates for interconnection and the purchase of UNEs. The FCC also adopted a methodology for States to use when applying the 1996 Act "avoided cost standard" for setting wholesale prices with respect to retail services.

The U.S. Supreme Court affirmed the authority of the FCC to establish rules governing interconnection. Covista believes that additional disputes regarding interconnection issues and other related FCC actions are likely. In particular, the Supreme Court remanded to the FCC issues regarding what UNEs the FCC will require ILECs to make available to competitors. In November 1999, the FCC released a decision modifying the list of UNEs which all ILECs must offer to other carriers. The Eighth Circuit decisions and their reversal by the Supreme Court continue to cause uncertainty about the rules governing the pricing, terms and conditions of interconnection agreements. The Supreme Court's ruling and further proceedings on remand (either at the Eighth Circuit or the FCC) may affect the scope of the PUCs' and PSCs' authority to conduct arbitration proceedings or to implement or enforce interconnection agreements. The ruling could also result in new or additional rules being promulgated by the FCC. Given the ongoing uncertainty surrounding the effect of the Eighth Circuit decisions and the decision of the Supreme Court reversing them, Covista may not be able to obtain or enforce interconnection terms acceptable to it or that are consistent with its business plans.

Other Federal Regulations

In general, the FCC has a policy of encouraging the entry of new competitors in the telecommunications industry and preventing anti-competitive practices. Therefore, the FCC has established different levels of regulation for dominant carriers and non-dominant carriers. For purposes of domestic common carrier telecommunications regulation, large ILECs are currently considered dominant carriers, while CLECs are considered non-dominant carriers.

- ***Tariffs.*** As a non-dominant carrier, Covista may install and operate facilities for the transmission of domestic interstate communications without prior FCC authorization. Services of non-dominant carriers have been subject to relatively limited regulation by the FCC, primarily consisting of the filing of tariffs and periodic reports. However, non-dominant carriers like Covista must offer interstate services on a nondiscriminatory basis, at just and reasonable rates, and remain subject to FCC complaint procedures. With the exception of informational tariffs for operator-assisted services and tariffs for interexchange casual calling services, the FCC has ruled that IXCs must cancel their tariffs for domestic interstate interexchange services. Tariffs continue to be required for international services. Pursuant to these FCC requirements, Covista has filed and maintains tariffs for its interstate services with the FCC. All of the interstate access and retail "basic" services (as defined by the FCC) provided by Covista are described therein. "Enhanced" services (as defined by the FCC) need not be tariffed. Covista believes that its proposed enhanced voice and Internet services are "enhanced" services which need not be tariffed. However, the FCC is reexamining the "enhanced" definition as it relates to IP transport and Covista cannot predict whether the FCC will change the classification of such services.

- ***International Services.*** Non-dominant carriers such as Covista are required to obtain FCC authorization pursuant to Section 214 of the Communications Act and file tariffs before providing international communication services. Covista has obtained authority from the FCC to engage in business as a resale and facilities-based international carrier to provide voice and data communications services between United States and all foreign points.

- ***ILEC Price Cap Regulation Reform.*** In 1991, the FCC replaced traditional rate of return regulation for large ILECs with price cap regulation. Under price caps, ILECs can raise prices for certain services by only a small percentage each year. In addition, there are constraints on the pricing of ILEC services which are competitive with those of CLECs. In September 1995, the FCC proposed a three-stage plan which would substantially reduce ILEC price cap regulation as local markets become increasingly competitive and, ultimately, would result in granting ILECs nondominant status. Adoption of the FCC's proposal to reduce significantly its regulation of ILEC pricing would significantly enhance the ability of ILECs to compete against Covista and could have a material adverse effect on Covista. The FCC released an order in December 1996 that adopted certain of these proposals, including the elimination of the lower service band index limits on price reductions within the access service category. The FCC's December 1996 order also eased the requirements necessary for the introduction of new services by ILECs. In May 1997, the FCC took further action updating and reforming its price cap plan for the ILECs. Among other things, the changes require price cap ILECs to reduce their price cap indices by 6.5 percent annually, less an adjustment for inflation. The FCC also eliminated rules that require ILECs earning more than certain specified rates of return to "share" portions of the excess with their access customers during the next year in the form of lower access rates. In August, 1999, the FCC again took action designed to grant greater flexibility to price cap LECs as competition develops. These reforms should facilitate the removal of services from price deaveraging of rates for services in the trunking basket, and removal, upon implementation of toll dialing parity, of certain interstate interexchange services from price cap regulation. These actions could have a significant impact on the interstate access prices charged by the ILECs with which Covista expects to compete.

- ***Access Charges.*** Over the past several years, the FCC has granted ILECs significant flexibility in their pricing of interstate special and switched access services. Under this pricing scheme, ILECs may establish pricing zones based on access traffic density and charge different prices for each zone. Covista anticipates that this pricing flexibility should result in ILECs lowering their prices in high traffic density areas, the probable area of competition with Covista. Covista also anticipates that the FCC will grant ILECs increasing pricing flexibility as the number of interconnections and competitors increases. In May, 1997, the FCC took action to reform the current interstate access charge system. The FCC adopted an order which makes various reforms to existing rate structures for interstate access designed to move access charges, over time, to more economically efficient rate levels and structures. The FCC recently granted LECs additional pricing flexibility. As such, the carriers may offer volume discounts which may benefit larger long distance carriers.

The FCC has also implemented changes in interstate access rules that result in restructuring of the access charge system and changes in access charge rate levels. As of January 1998, access charges incurred by Covista are being passed on to end users. In May 1999, the U.S. Court of Appeals (D.C. Circuit) sent the access rate formula back to the FCC for further explanation regarding how certain factors were calculated. These and related actions may change access rates. If the formula is upheld, and access rates are reduced, the result will be a lower cost of providing long distance service, especially to business customers. The impact of these new changes will not be known until they are fully implemented over the next several years. In a related proceeding, the FCC has adopted changes to the methodology by which access has been used in part to subsidize universal telephone service and other public policy goals. Telecommunications providers like Covista pay fees calculated as a percentage of revenue to support these goals. The full implications of these changes remains uncertain and subject to change.

- ***PICC.*** As part of Access Reform mandated in the Telecommunications Act of 1996, beginning in 1998, local phone companies were permitted to assess the Pre-subscribed Interexchange Carrier Charge, also known as "PICC." The "PICC" is a monthly per line cost charged by the local telephone company to every long distance carrier for each customer phone line that is pre-subscribed to that carrier. PICC charges are billed to the end users.

- ***Universal Service Reform.*** In May, 1997, the FCC released an order which reforms the current system of interstate universal service support and implements the universal service provisions of the 1996 Act. The FCC established a set of policies and rules designed to ensure that low-income consumers and consumers who live in rural, insular and high-cost areas receive a defined set of local telecommunications services at affordable rates. This was to be accomplished in part through expansion of direct consumer subsidy programs and in part by ensuring that rural, small and high-cost LECs continue to receive universal service subsidy support. The FCC also created new programs to subsidize connection of telecommunications networks to eligible schools, libraries and rural health care providers. These programs were to be funded by assessment of eligible revenue of nearly all providers of interstate telecommunications carriers, including Covista.

Covista, like other telecommunications carriers providing interstate telecommunications services, is required to contribute a portion of its end-user telecommunications revenue to fund universal service programs. These contributions became due beginning in 1998 for all providers of interstate telecommunications services. Such contributions were to be assessed based on intrastate, interstate and international end user telecommunications revenue. Contribution factors vary quarterly and carriers, including Covista, are billed each month. In addition, many state regulatory agencies have instituted proceedings to revise state universal fund contribution requirements which will vary from state to state. Recently, the U.S. Court of Appeals for the Fifth Circuit rejected the FCC's effort to base contributions in part on intrastate revenues. The FCC's universal service program may be altered as a result of appeals, agency reconsideration of its actions, or future Congressional legislation.

Pursuant to the Universal Service Order, all carriers are required to submit a Universal Service Fund worksheet. Covista has filed its Universal Service Fund worksheet. The amounts remitted to the Universal Service Fund are billed to Covista's customers. Covista is eligible to qualify as a recipient of universal service support if it elects to provide facilities-based service to areas designated for universal service support and if it complies with federal and state regulatory requirements to be an

In October, 1999 the FCC adopted a new high-cost universal service support mechanism for non-rural carriers. The new mechanism is based on the forward-looking costs of providing supported services as determined by the Commission's cost model. The forward-looking support mechanism provides support to non-rural carriers in those states that have a statewide average forward-looking cost per line greater than the national benchmark, which is set at 135 percent of the national average forward-looking cost per line. The FCC's decisions regarding universal service could have a significant impact on future operations of Covista.

- *Colocation.* In March, 1999, the FCC released its Colocation Order which requires ILECs to permit CLECs to colocate any equipment used for interconnection or access to unbundled network elements even if that equipment includes switching or enhanced service functions. Among other things, the Colocation Order also prohibits ILECs from placing any limits on the use of switching or enhanced features for collocated equipment, and requires ILECs to make cageless colocation available and permit CLECs to construct their own cross-connect facilities.

  In March, 2000, the U.S. Court of Appeals for the District of Columbia Circuit vacated limited portions of the Collocation Order, holding certain definitions contained in FCC rules were impermissibly broad. The Court remanded the Collocation Order, in part, for further FCC consideration of these issues.

- *Line Sharing.* In November, 1999, the FCC adopted a new order requiring ILECs to provide line sharing, which will allow CLECs to offer data services over the same line the consumer uses for voice services, without the CLECs being required to offer the voice services. State commissions have been authorized to establish the prices to the CLECs for such services. The decision has been appealed.

<u>State Regulation</u>

Some states in which Covista operates are considering legislation which could impede efforts by new entrants in the local services market to compete effectively with ILECs. However, Covista does not have any intention to pursue the local services market.

Compliance with Environmental Provisions

Company believes that it complies in all material respects with current pertinent federal, state, and local provisions relating to the protection of the environment and does not believe that continued compliance would require any material capital expenditure.

Subsequent Events

A joint proxy statement/prospectus dated January 9, 2002 and mailed to stockholders on or about January 11, 2002 detailed a merger agreement between Covista and Capsule Communications, Inc. which had been approved by the Covista and Capsule boards of directors. Capsule is a telecommunications carrier providing local and long-distance telephone communications services primarily to small- and medium-size business customers as well as residential customers utilizing its own equipment. Capsule provides inbound long-distance services and local resale services as well as other telecommunications services including calling cards, cellular, paging, Internet service, dedicated access, data services, and carrier termination services. Capsule uses its own switch located in Philadelphia to originate, transport and terminate calls for customers generally located in the Mid-Atlantic region and in California. For calls originating or terminating outside its own network, Capsule resells services provided by other long-distance companies. Capsule is the successor corporation to US Wats, Inc. During the scheduled annual meeting of stockholders on February 8, 2002, the merger was approved by the requisite vote of stockholders of Covista and Capsule. The merger was consummated on February 8,2002.

On February 12, 2002, Covista announced a reduction in force of 26% of its New York/New Jersey workforce related to a reduction in revenue due to the decline in the wholesale market and the World Trade Center attack of September 11, 2001 and the move of operations to Tennessee.

<u>PERSONNEL</u>

As of the April 15, 2002, Covista and its subsidiaries employed 243 full-time and part-time employees in its long distance telecommunication business, of whom 20 were engaged in sales activities, 82 in customer service and support, 52 in technical and field services, 22 in data processing, and 67 in general and administrative activities. Covista also utilizes the services of approximately 950 independent sales agents. Covista considers its relations with its employees to be satisfactory.

ITEM 2. **Properties**

On November 15, 1993, and December 28, 1993, Covista entered into leases for an aggregate of approximately 3,500 square feet of space at 744 Broad Street, Newark, New Jersey, for its switching equipment. The lease ran from January 1, 1994 through December 31, 1998, with an option to renew the lease through August 31, 2002, which has been exercised. The annual rental of $63,200 also requires the tenant to pay a proportionate share of any increase in the "Consumer Price Index", U. S. City Average over the base year. Covista does not have plans to renew the lease and the switching components are to be relocated to another site.

On February 22, 1994, Covista entered into a lease, subsequently modified on April 15, 1994, for approximately 17,700 square feet of space at 150 Clove Road, Little Falls, New Jersey to be used as sales, executive and administrative offices. The lease provided for a rent holiday until July, 1995, after which the annual rental would be approximately $360,000. The lease is for five years and ten months and has been amended by a second lease modification agreement dated February 9, 1995 whereby Covista leased approximately 6,700 additional square feet of space at the same location at an additional annual rental of $121,707 for the first four years and $138,154 for the next year and two months. The modified agreement also extended the term of the existing lease for an additional two years to August 14, 2002 at a then annual rental of $563,000. The lease requires the payment of the tenant's proportionate share of operating expenses and real estate tax increases over the base year. There are two five year renewal options. There are no plans to exercise renewal options.

On January 30, 1997, Covista entered into a third modification of its lease for approximately 16,640 square feet of additional office space at its existing facility at 150 Clove Road, Little Falls, New Jersey. The annual rental on the additional space was $357,760 per annum from July 1, 1997 through February 14, 1998, is $366,800 per annum from February 15, 1998 through August 14, 2000, and will be $384,820 per annum from August 15, 2000 through August 14, 2002. In addition, Covista is obligated for its proportionate share of increases in real estate taxes and operating expenses over the base year. There are two five year renewal options, requiring nine months' prior notice. There are no plans to exercise the renewal options. Covista plans to move the existing office staff to a smaller location in the general area of Little Falls, NJ and certain operational units of Covista to Chattanooga, Tennessee.

On November 1, 1996, Covista entered into a lease for approximately 8,300 square feet of space at 40 Rector Street, New York City, New York, for use as a second switching facility. The term of the lease is for fifteen years and ten months from the date of commencement, which was March 1, 1997. Rental payments are $163,918 per annum for the first five years after commencement, $166,480 per annum for the next five years, and $183,128 per annum for the remaining five years and ten months. The lease requires the payment of the tenant's proportional share of increased operating expenses and real estate taxes over the base year.

On November 8, 1996, a subsidiary of Covista entered into a lease for approximately 2,300 square feet of office space in New York City, New York at an annual rental of approximately $77,781. The lease commenced February 1, 1997 and is for sixty three (63) months. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year.

On February 6, 1998, Covista entered into a lease for approximately 5,000 square feet of space at 28 W. Flagler Street, Miami, Florida. The term of the lease is 15 years, commencing February 1, 1998. The annual rental is approximately $116,160, with an annual adjustment based on the Revised Urban Wage Earners and Clerical Workers Index, capped at a maximum of 3% increase over the prior year's rental payment. In addition, Covista is liable for its proportionate share of increases in real estate taxes and operating expenses over the base year. Covista sublet this space on January 1, 2000 for the balance of its term, to another tenant at an annual rate of approximately $116,160, subject to adjustments. The tenant has defaulted on the sublease and Covista is currently considering utilizing the space.

On September 1, 1998, Covista entered into a five year lease, commencing September 1, 1998 for 3,008 square feet of space at 500 Cypress Creek Road, Fort Lauderdale, Florida. Rental payments were $48,128 per annum from September 1, 1998 to August 31, 1999, $50,554 from September 1, 1999 to August 31, 2000, $53,061 from September 1, 2000 to August 31, 2001, $55,708 from September 1, 2001 to August 31, 2002 and $58,506 from September 1, 2002 to August 31, 2003. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. In January, 2000 Covista entered into a modification of the lease whereby the space was reduced to 1,200 square feet. Rental payments have been modified to be $30,300 from February 15, 2000 to February 14, 2001, $33,033 from February 15, 2001 to February 14, 2002, $34,587 from February 15, 2002 to February 14, 2003 and $32,538 from February 15, 2003 to February 14, 2004. Covista has sublet this space to another tenant.

October 1, 1999 to August 31, 2000, and are $64,818 from September 1, 2000 to August 31, 2001 and $67,422 from September 1, 2001 to August 31, 2002. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

On November 17, 1999, Covista entered into a three year lease, commencing November 17, 1999 for 2,186 square feet of space at One Landmark Square, Stamford, Connecticut. Rental payments were $50,278 per annum from November 17,1999 to November 16,2000, are $51,371 from November 17,2000 to November 16, 2001, and $51,556 from November 17, 2000 to November 16, 2002. There is an option to renew for three years, upon nine months' prior written notice. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

On October 11, 1999, Covista entered into a three year lease, commencing October 11,1999 leasing 1,926 square feet of space at 1810 Chapel Avenue West, Cherry Hill, New Jersey. Rental payments are $38,520 per annum from October 11, 1999 to October 31,2002. There is an option to renew for three years, upon nine months' prior written notice. The lease requires the payment of the tenant's proportionate share of increased operating expenses and real estate taxes over the base year. Covista has sublet this space to another tenant.

Covista has entered into a lease agreement for approximately 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III Chairman of the Board and a principal shareholder of Covista. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of $86,400 from September 1, 2001 to August 30, 2002; $115,200 from September 1, 2002 to August 30, 2003; $144,000 from September 1, 2003 to August 30, 2004, with the last two years to be $144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms not less favorable than an arm's length transaction.

ITEM 3. Pending Legal Proceedings

There are no pending legal proceedings that could be expected to have a material adverse effect on Covista.

ITEM 4. Submission of Matters to a Vote of Security Holders

A joint proxy statement/prospectus dated January 9, 2002 and mailed to stockholders on or about January 11, 2002 detailed a merger agreement between Covista and Capsule Communications, Inc. which had been approved by the Covista and Capsule boards of directors. During the scheduled annual meeting of stockholders on February 8, 2002, the merger was approved by the requisite vote of stockholders of Covista and Capsule. The merger was consummated on February 8,2002. Other matters presented to stockholders included election of eight directors of Covista , adoption of the 2001 Equity Incentive Plan, and to ratify the selection of Deloitte & Touche LLP as independent auditors of Covista for the fiscal year ending January 31, 2002.

PART II

ITEM 5. Market for Company's Common Stock and Related Security Holder Matters

Common Stock

Covista's authorized capital stock consists solely of 50,000,000 shares of Common Stock. Holders of Covista's Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor. Each holder of Common Stock is entitled to one vote for each share held. There is no right to cumulative voting. Upon liquidation, dissolution, or winding up of Covista, the holders of Common Stock are entitled to receive a pro rata share of all assets available for distribution to stockholders. The Common Stock has no pre-emptive or other subscription rights, and there are no conversion or redemption rights with respect to such shares.

Effective on July 15, 1998, Covista distributed 4,207,887 shares of Common Stock in connection with a 2-for-1 stock split of all outstanding shares as of June 30, 1998. As of the date of this report, there were 12,536,949 shares of Common Stock issued and outstanding, held by 840 persons, as reported by Covista's transfer agent.

Price Range of the Common Stock

Covista's Common Stock is traded in the over-the-counter market on the NASDAQ National Market System under the Symbol CVST. The following table sets forth, for the quarterly fiscal periods indicated, the high and low closing sales prices for Covista's Common Stock in such market, as reported by the National Association of Securities Dealers, Inc.

FISCAL 2002	HIGH	LOW
February 1, 2001 thru April 30	$ 6.188	$ 1.547
May 1 thru July 31	7.25	3.25
August 1 thru October 31	10.25	4.50
November 1 thru January 31, 2002	10.25	5.62
FISCAL 2001	**HIGH**	**LOW**
February 1, 2000 thru April 30	15.00	9.1875
May 1 thru July 31	12.375	6.00
August 1 thru October 31	9.50	3.625
November 1 thru January 31, 2001	4.9375	0.625

Covista has not paid or declared any cash dividends during the past two fiscal years and does not anticipate paying any in the foreseeable future.

ITEM 6. **Selected Financial Data**

(In thousands except per share amounts)

RESULTS OF OPERATIONS:	Year ended January 31, 2002	2001	2000	1999	1998
Net sales	$ 95,313	$ 133,230	$ 139,760	$ 137,283	$ 123,286
Net (Loss) earnings	$ (11,970)	$ (8,629)	$ (9,414)	$ (3,418)	$ 1,094
Weighted average common shares outstanding (a)					
Basic	10,204	7,324	7,069	6,818	6,213
Diluted	10,204	7,324	7,069	6,818	6,842
(Loss) earnings per common and common equivalent shares					
Basic (Loss) earnings per share	$ (1.17)	$ (1.18)	$ (1.33)	$ (0.50)	$ 0.18
Diluted (Loss) earnings per share	$ (1.17)	$ (1.18)	$ (1.33)	$ (0.50)	$ 0.16
Cash dividends per common share	None	None	None	None	None
Additions to property & equipment	$ 5,465	$ 3,227	$ 3,019	$ 4,727	$ 3,268
Depreciation and amortization	$ 4,569	$ 3,578	$ 2,985	$ 2,785	$ 2,028
FINANCIAL POSITION:					
Working Capital	$ (11,327)	$ (7,734)	$ 1,222	$ 1,261	$ 7,936
Property and equipment - net	$ 12,490	$ 13,021	$ 13,317	$ 14,473	$ 12,406
Total assets	$ 31,257	$ 39,097	$ 45,184	$ 45,692	$ 40,245
Long-term debt	$ 4,400(b)	$ 382	$ 997	$ 1,566	$ 2,092
Shareholders' Equity	$ 1,569	$ 5,777	$ 14,007	$ 16,442	$ 18,598
Common shares outstanding (a)	10,849	7,969	7,944	7,605	6,679

(a) All per share amounts have been restated to reflect the 2 for 1 stock split distributed July 1, 1998.
(b) $4,400,000 consists of a note from Covistas' Chairman of the Board which is planned to be converted to an equity position (see ITEM 13).

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is presented to assist in assessing the changes in financial condition and performance of Covista for the fiscal years ended January 31, 2000 (Fiscal 2000) and January 31, 2001 (Fiscal 2001) and January 31, 2002 (Fiscal 2002). The following information should be read in conjunction with the financial statements and related notes and other detailed information regarding Covista included elsewhere in this report and should not be construed to imply management's belief that the results, causes or trends presented will necessarily continue in the future. Certain information contained below and elsewhere in this annual report, including information with respect to Covista's plans and strategy for its business, are "forward-looking statements."

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. Covista adopted SFAS 133 effective February 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operation, or cash flows of Covista.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Covista does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements, beyond the cessation of goodwill amortization on future business combinations. As of January 31, 2002 Covista has no Goodwill recorded on its books.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires Covista to complete a transitional goodwill impairment test six months from the date of adoption. Covista is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for all fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), " Accounting for the Impairment or Disposal of Long Lived Assets", which is effective February 1, 2002. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 requires that long-lived assets be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing but has not yet determined the impact of SFAS 144 on its financial position and results of operations.

RESULTS OF OPERATIONS

FISCAL 2002 AS COMPARED TO FISCAL 2001

Revenues

Net sales of telecommunications services for the fiscal year ended January 31, 2002 were approximately $95,313,000, a decrease of approximately $37,917,000 or 28.5% from the approximately $133,230,000 of net sales in Fiscal 2001. These revenues were comprised of retail sales of approximately $47,424,000 and wholesale sales of approximately $47,889,000. Covista billed approximately 1,075,758,000 minutes in Fiscal 2002 as

Net retail sales for Fiscal 2002 were approximately $47,424,000, a decrease of approximately $6,063,000, or 11.3% from the approximately $53,487,000 billed in Fiscal 2001. Retail billed minutes were approximately 618,546,000, an increase of approximately 18,165,000 minutes or 3%, over the retail minutes of approximately 600,381,000 billed in Fiscal 2001. The average price per minute decreased approximately 17.3% as the industry continued to experience decreased price per minute of usage. Covista does not foresee that this trend in pricing will abate in the near future.

Net wholesale (carrier) sales for Fiscal 2002 were approximately $47,889,000, a decrease of approximately $31,854,000 or 39.9% from the approximately $79,743,000 billed in Fiscal 2001. Billed wholesale minutes amounted to approximately 457,211,000, a decrease of approximately 197,844,000 minutes or 30.2% from the billed wholesale minutes of approximately 655,055,000 billed in Fiscal 2001. The sales mix continued to move toward higher priced international traffic from the lower priced domestic traffic. International carrier traffic decreased 162,049,000 minutes or approximately 29.1% to approximately 395,619,000 minutes. Domestic minutes decreased approximately 35,794,000 or approximately 36.8% to approximately 61,592,000 minutes. The average wholesale price per minute fell 16% due to continuing competition in the industry, a trend, which Covista believes, will continue.

Cost of Sales

Cost of sales consists of access fees, line installation expenses, switch expenses, Network Operating Center ("NOC") expenses, network depreciation, transport expenses, and local and long-distance expenses. Cost of sales for Fiscal 2002 was approximately $76,476,000, a decrease of approximately $39,583,000 or 34.1% from the approximately $116,059,000 of cost of sales in Fiscal 2001. Included in cost of sales are direct line costs, usage charges and the direct costs of Covista's switches and NOC. The decrease in cost of sales was primarily due to the decrease in lower margin wholesale volume of approximately $24,401,000; a decrease in technician salary, wages and fringe benefits of approximately $46,000; decreased consulting expense of approximately $174,000 an improvement in rates obtained from vendors of approximately $15,298,000 ; other net savings in the NOC and switches of approximately $123,000; an increase in depreciation expense resulting from upgrades to the switches of approximately $130,000; an increase in equipment rental resulting from a switch sale/leaseback agreement in the amount of approximately $329,000; and the effect of the access charge settlement recorded in Fiscal 2001.

Selling, General and Administrative:

Selling, general and administrative (S, G & A) expenses are comprised of selling and marketing costs, and general and administrative costs. S, G & A expenses for Fiscal 2002 increased to approximately $30,987,000, an increase of approximately $4,083,000 or 15.2% from the approximate $26,903,000 in Fiscal 2001. This increase was primarily due to increases in salary, wages and benefits due to the new residential service and call center being established in Tennessee of approximately $412,000; a $570,000 severance accrual established for New York/New Jersey staff reductions taking place in fiscal 2003; an increase in marketing cost related to new residential service of approximately $177,000; and increase in general office expense of approximately $272,000; an increase in bad debt expense of $2,758,000 due to the write off of a portion of certain carrier receivables; an increase in depreciation and amortization due to amortization of customer lists (from customer lists acquired from Blink Data Corporation) of approximately $731,000; and an increase in travel and entertainment of approximately $98,000. These increases were offset by reductions in commissions due to decreased sales volume of approximately $497,000; decreases in selling expense of approximately $90,000; and a decrease in professional fees and consulting of $252,000.

Stock Compensation Expense

Stock compensation expenses for Fiscal 2002 decreased to approximately $12,000, a decrease of approximately $255,000, or 95.5%, from the approximately $267,000 charged in Fiscal 2001. The decrease is due to a majority of stock grants being fully vested.

Other Income and Expense

Total other income, net for Fiscal 2002 increased approximately $88,000. The components of other income and expense are interest expense, interest income and other items. Interest income decreased approximately $8,000; interest expense increased approximately $137,000; and gains on sales of securities increased approximately $232,000.

Net Loss

The net loss for Fiscal 2002 of approximately $11,970,000 represents an increase in net loss of approximately $3,340,000 over the net loss of approximately $8,629,000 reported in Fiscal 2001, based on the explanations of changes above.

RESULTS OF OPERATIONS

FISCAL 2001 AS COMPARED TO FISCAL 2000

Revenues

Net sales of telecommunications services and systems for the fiscal year ended January 31, 2001 were approximately $133,230,000, a decrease of approximately $6,530,000 or 4.7% from the approximately $139,760,000 of net sales in Fiscal 2000. These revenues were comprised of retail sales of approximately $53,487,000 and wholesale sales of approximately $79,743,000. Covista billed approximately 1,255,437,000 minutes in Fiscal 2001 as compared to approximately 1,242,942,000 minutes in Fiscal 2000, an increase of 12,495,000 minutes or 1.0%.

Net retail sales for Fiscal 2001 were approximately $53,487,000, a decrease of approximately $15,536,000, or 22.5% from the approximately $69,023,000 billed in Fiscal 2000. Retail billed minutes were approximately 600,381,000, a decrease of approximately 80,333,000 minutes or 11.8%, from the retail minutes of approximately 680,714,000 billed in Fiscal 2000. The average price per minute has decreased approximately 13.8% as the industry continues to experience decreased price per minute of usage. Covista does not foresee that this trend in pricing will abate in the near future.

Net wholesale (carrier) sales for Fiscal 2001 were approximately $79,743,000, an increase of approximately $9,006,000 or 12.7% over the approximately $70,737,000 billed in Fiscal 2000. Billed wholesale minutes amounted to approximately 655,055,000, an increase of approximately 92,828,000 minutes or 16.5% over the billed wholesale minutes of approximately 562,227,000 billed in Fiscal 2000. The sales mix continued to move toward higher priced international traffic from the lower priced domestic traffic. International carrier traffic increased 177,976,000 minutes or approximately 46.9% to approximately 557,669,000 minutes. Domestic minutes decreased approximately 85,149,000 or approximately 46.6% to approximately 97,387,000 minutes. The average wholesale price per minute fell 4.1% due to continuing competition in the industry, a trend, which Covista believes, will continue.

Cost of Sales

Cost of sales consists of access fees, line installation expenses, switch expenses, NOC expenses, network depreciation, transport expenses, and local and long-distance expenses. Cost of sales for Fiscal 2001 was approximately $116,059,000, an increase of approximately $3,265,000 or 2.9% over the approximately $112,794,000 of cost of sales in Fiscal 2000. Included in cost of sales are direct line costs, usage charges and the direct costs of Covista's switches and NOC. The increase in cost of sales was primarily due to the increase in lower margin wholesale volume of approximately $10,319,000; increases in salary, wages and fringe benefits of approximately $881,000; increased consulting expense of approximately $178,000, and an increase in depreciation expense resulting from upgrades to the switches of approximately $239,000. This was offset by the reduced volume of retail traffic amounting to approximately $5,297,000; an improvement in cost rates obtained from vendors of approximately $2,924,000 and other net savings in the NOC and switches of approximately $131,000.

Access Charge Settlement:

In the second quarter of the fiscal year ended January 31, 2001, Covista received a cash payment of $1,264,483 from certain Bell Companies in settlement of a class action suit, to which Covista was a party, filed in 1992 relating to alleged overcharges by those companies. The settlement concluded the class action with the Bell Companies. Covista's portion of the settlement was not determined until the second quarter of the fiscal year. The cash payment was recorded as a separate line item as a reduction of costs and expenses in the quarter ended July 31, 2000.

Selling, General and Administrative:

Selling, general and administrative (S, G & A) expenses are comprised of selling and marketing costs, and processing services resulting from bringing the billing system in house of approximately $165,000; a decrease in salaries, fringe benefits and taxes of approximately $311,000; a reduction of meals and entertainment expense of approximately $63,000; a reduction of legal fees of approximately $185,000; a reduction of selling expense of approximately $191,000, and other net savings of approximately $256,000. These decreases were offset by additions to the bad debt provision, due to the failure of certain wholesale accounts, of approximately $1,272,000; increased spending for general office of approximately $302,000; an increase in recruiting and training for new sales employees of approximately $180,000; and an increase in depreciation expense on new ISP equipment of approximately $332,000.

Restructuring Expense

In Fiscal 2000, approximately $319,000 of a prior accrual for restructuring expenses was reversed. This amount included an approximately $97,000 reduction in the severance accrual; a reduction of approximately $20,000 for fringe benefits and an approximately $202,000 reduction in the accrual on the Fort Lauderdale lease, due to revisions in the lease. There were no charges to restructuring expense in Fiscal 2001; however, Covista settled, for approximately $12,000, the balance on the lease in Fort Lauderdale, Florida, which was charged against accrued restructuring costs.

Stock Compensation Expense

Stock compensation expenses for Fiscal 2001 increased to approximately $267,000, an increase of approximately $63,000, or 30.9%, from the approximately $204,000 charged in Fiscal 2000. The increase is due to having fewer cancellations of certain restricted stock grants to employees in the current year over the prior year.

Other Compensation

On September 21, 1999, Covista entered into an agreement with Warren Feldman, the then Chairman of the Board of Directors and a shareholder of Covista. As part of this agreement, a lump sum payment in the then amount of $900,000 was made to Mr. Feldman in settlement of his employment agreement. Covista paid $650,000 and Mr. Walt Anderson, a major shareholder, paid $250,000. Mr. Feldman's Employment Agreement was to have been in effect until December 31, 2001. Covista expensed $900,000 in Fiscal 2000 with $250,000 being accounted for as a capital contribution.

Simultaneously, Revision LLC and Mr. Walt Anderson ("Revision/Anderson") and Covista entered into Put Option agreements with Warren Feldman, Sol Feldman ("the Feldmans") and Leon Genet, ("Genet") a director of Covista. These Put Option agreements allowed the Feldmans and Genet the right to sell their shares of Covista to Revision/Anderson at a price of $16.00 per share and obligated Revision/Anderson to purchase the shares during an exercise period beginning on December 11, 1999 and ending on February 10, 2000. Revision/Anderson purchased the shares under the put option agreements prior to the expiration, with the exception of 100,778 shares still held by the Feldmans. Covista had no obligation to purchase any shares from the Feldmans or Genet. The closing market price of Covista's shares on September 21, 1999, the date of the agreements, was $12.25, and the total number of shares covered by the agreements was 1,208,137. Using a binomial valuation model with an interest rate of 5% and a volatility rate of 50%, the fair value of the Put Option agreements was determined to be $4.03 per share or $4,870,554. Covista accounted for this non-cash transaction as a charge to expense and a credit to paid-in capital during Fiscal 2000.

Other Income and Expense

Total other income and expense for Fiscal 2001 increased approximately $135,000. The components of other income and expense are interest expense, interest income and other items. Interest income increased approximately $52,000; interest expense decreased approximately $42,000; and approximately $41,000 in insurance claims were received.

Net Loss

The net loss for Fiscal 2001 of approximately $8,629,000 represents a decrease in net loss of approximately $785,000 from the net loss of approximately $9,414,000 reported in Fiscal 2000, based on the explanation of changes above.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

a reduction in investments of approximately $97,000; a reduction in accounts receivable of approximately $9,361,000; an increase in prepaid expenses of approximately $149,000; an increase in allowance for doubtful accounts of approximately $912,000; and an increase in accrued liabilities of approximately $1,600,000. Also affecting working capital were an increase in notes receivable of approximately $500,000 from Capsule Communications Inc.; a reduction in accounts payables of approximately $8,495,000; a decrease in accrued salaries and wages of approximately $313,000; and a decrease in current portion of long term debt of $234,000. The current ratio of 0.5 to 1, decreased from the 0.8 to 1 *ratio* at the end of Fiscal 2001.

On February 21, 2002, Covista announced that on February 20, 2002, its Board of Directors had approved the private sale of additional Common Stock of up to $12,500,000. The investment will include a cash infusion of $4,800,000, contribution of $3,300,000 of fixed assets for debt or Common Stock and the conversion of all existing long-term debt for debt or Common Stock to Common Stock at the rate of $5.00 per share, which was the closing price for the Common Stock on the date authorized by the Board. The commitment for funding for the investment and the conversion of the indebtedness is anticipated to come primarily from the current Chairman of Covista's Board or his designee's and is subject to shareholder's approval at the next Annual Meeting, or a special meeting of Shareholders to be convened for such purpose. As of May 14, 2002, $2,600,000 of cash was received from the Chairman of Covista's Board in exchange for debt. Finally, the company is planning to obtain a line of credit from a bank. If such line of credit is not obtained, the Chairman of the Board has committed to loaning $2 million to the Company through at least the second quarter of fiscal 2004.

Cash Flow Statement

The cash flow statement of Covista for Fiscal 2002 indicated a decrease in cash and cash equivalents of approximately $1,313,000. Non-cash adjustments (depreciation, amortization, reserve for bad debt, non-cash compensation expense, and gain on investments,) of approximately $9,697,000 and net changes in assets and liabilities of approximately $1,690,000 added back to the net loss of approximately $11,970,000 resulted in net cash used by operations of approximately $3,963,000. Cash used in investing activities amounted to approximately $7,477,000, of which approximately $5,465,000 were used for the purchase of capital additions and approximately $56,000 was used for the purchase of additional circuits to build out the network, the proceeds from sale investments of approximately $116,000, a note from Capsule Communications, a related party, of $500,000 and payment for prepaid network capacity of $4,000,000. These additions were partially offset by proceeds from and the sale of fixed assets of approximately $2,338,000. The cash used in financing activities of approximately $10,128,000 consisted primarily of the repayment of bank borrowings of approximately $616,000, offset by cash received from the exercise of stock options of approximately $43,000, proceeds from the issuance of Common Stock of $6,300,000, a note payable to a related party of $4,400,000.

Accounts Receivable

The Company has entered into offset arrangements with certain customers, who are also vendors, allowing for the ability to offset payable balances against the Company's receivable balances.

The retail segment of Covista experience an approximate accounts receivable turnover of 53 days; while the wholesale segment has an accounts receivable turnover of 64 days.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

The Company's revenues, net of sales discounts, are recognized in the period in which the service is provided, based on the number of minutes of telecommunications traffic carried, and a rate per minute. Access and other service fees charged to customers, typically monthly, are recognized in the period in which service is provided.

Deferred Line Installation Costs

Deferred line installation costs are costs incurred by the Covista for new facilities and costs incurred for connections from within the Covista's network to the network of other telecommunication suppliers (such as Verizon, MFS, GTE and other carriers). Amortization of these line installation costs is provided using the straight-line method over the contract life of the lines ranging from three to five years.

The Company accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period that the impairment occurred. Based on the Company's analysis of future undiscounted cash flows which are in excess of the carrying value of its long-lived assets, there does not appear to be an impairment as of January 31, 2002.

CAPITAL EXPENDITURES

Capital expenditures for Fiscal 2002 totaled approximately $5,465,000, and were financed from funds provided from Covista's working capital, sale and lease back of two switches, and a private sale of equity and a loan. The capital expenditures were used for the addition of the IP network of approximately $168,000; upgrades to Covista's switches and switch sites of approximately $4,439,000; software and hardware upgrades to Covista's computer network of approximately $304,000; and furniture, fixtures and equipment for new sales offices of approximately $511,000, and other furniture and fixtures of $43,000.

Capital expenditures for Fiscal 2003 are estimated at approximately $5,000,000 and are expected to be financed from funds provided from operations, and a cash infusion of $4,800,000 from a related party of Covista.

Inflation

Since inflation has slowed in recent years, Covista does not believe that its business has been materially affected by the relatively modest rate of price increases in the economy. However, pressures in the industry to reduce prices, which have impacted Covista in the past, are expected to continue. Also the telecommunications industry has recently experienced the failure of several businesses, some of which are Covista's wholesale customer and suppliers. These failures not only have affected Covista's FY 2002 results, but may impact future results. Covista continues to seek improvements in operations and efficiency through capital expenditures. Expenditures to improve the signaling system, information systems and the local area network are expected to result in operating costs savings, which could partially offset any future cost increases.

ENVIRONMENTAL MATTERS

Covista is not a party to any legal proceedings or the subject of any claim regarding environmental matters generally incidental to its business. In the opinion of Management, compliance with the present environmental protection laws should not have a material adverse effect upon the financial condition of Covista

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. Covista's cash and investments exceed long-term debt; therefore, the exposure to interest rate risk relates primarily to the marketable securities held by Covista. Covista only invests in instruments with high credit quality where a secondary market exists. Covista does not hold any derivatives related to its interest rate exposure. Covista also maintains long-term debt at fixed rates. Due to the nature and amounts of Covista's note payable, an immediate 10% change in interest rates would not have a material effect in Covista's results of operations over the next fiscal year. Covista's exposure to adverse changes in foreign exchange rates is also immaterial to the consolidated statements as a whole.

ITEM 8. Financial Statements and Supplementary Data

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

ITEM 10. Directors and Executive Officers of Covista

The directors and officers of Covista are as follows:

Name	Age	Position
Henry G. Luken III	40	Chairman of the Board
A. John Leach, Jr.	38	Director, President, Chief Executive Officer
Kevin Alward	35	Chief Operating Officer and Director
Jay J. Miller	68	Director
Nicholas Merrick	38	Director
Walt Anderson	46	Director
Leon Genet	70	Director
Donald Jones	66	Director
Thomas P. Gunning	64	Treasurer, Secretary and Chief Financial Officer

Covista's directors all serve for one year terms and until their successors are elected and qualify. Officers serve at the pleasure of the Board of Directors.

Henry G. Luken, III was elected a Director of Covista in February, 1999, and Chairman of the Board in February, 2001. Currently, he is President of Mont Lake Properties, Inc., a real estate development firm;a director of Equity Broadcasting Corp., a TV network; a director of ACNTV, a home shopping company selling through TV; Managing Agent of Henry IV LLC, an aircraft sales company. A co-founder of Telco Communications Group Inc., he served as Chief Executive Officer and Treasurer from July, 1993 to April, 1996, and Chairman from July, 1993 to October, 1997. Mr. Luken has also served as Chairman of Tel-Labs, Inc., a telecommunications billing firm ("Tel-Labs") since 1991, and as Chairman of Telco Development Group, Inc., a computer systems firm owned by Mr. Luken, since 1987, both of which entities he founded.

Walt Anderson was elected a Director of Covista in February, 1999, and as Chairman of the Board in November , 1999. He stepped down as Chairman in February, 2001. He has been Manager of Revision LLC from June 1998 to the present; President and Chairman of Entree International Ltd. (Financial Consulting Services) from July, 1997 to the present; Chairman of Capsule Communications, Inc, as of April 2001, Chairman of Teleport UK Ltd. (Satellite Communications) from May, 1996 to the present; Chairman of Espirit Telecom Group plc. (Telecom Services) from October, 1992 to November, 1998 and President and Chairman, Mid Atlantic Telecom (Telecom Services), from May, 1984 to December, 1993. Mr. Anderson is also a director of American Technology Labs (Network Equipment) and Aquarius Holdings Ltd. (Water Transport Systems).

Leon Genet has served as a Director since October, 1996. For more than the past five years, he has been a partner in Genet Realty, a commercial and industrial real estate brokerage firm. He serves as a member of the National Commerce and Industry Board for the State of Israel Bonds Organization and is a shareholder, director and officer of LPJ Communications, Inc., which has earned commissions from Covista on the same basis as other independent sales representatives. See "Certain Relationships and Related Transactions".

A. John Leach, Jr. was appointed President and Chief Executive Officer and a Director of Covista on May 18,2000. He had been Senior Vice President of Sales at BTI Telecomm, Inc., from December, 1999 to May, 2000; Senior Vice President of Tel-Labs, Inc. from June, 1998 to December, 1999, where he assumed responsibility for US that, Mr. Leach was Vice President of Agent Services at BTI Telecomm, from December, 1989 to June, 1996. Regional Sales Manager of Mobilecomm (a Bell South Company) where he started in sales and rose to a Regional Sales Manager position May, 1985 to December, 1989.

Jay J. Miller, Esq. has served as a Director since 1983. He has been a practicing attorney for more than 35 years in New York. He is Chairman of the Board of AmTrust Pacific Ltd., a New Zealand real estate company. He is also a director of Technology Insurance Company, Inc., a provider of various insurance products to the technology industry, and certain of its affiliates. Mr. Miller has performed legal services on behalf of Covista. See "Certain Relationships and Related Transactions."

Thomas P. Gunning was appointed Vice President, Secretary / Treasurer of Covista in May 1999. He was appointed Chief Financial Officer in September, 1994 and served in that capacity until May Of 1999. He was again appointed Chief Financial Officer in May of 2000. He was appointed Secretary of Covista in January of 1995. He has served as Controller of Covista since September, 1992. He is a Certified Public Accountant licensed by the States of New York and New Jersey. From 1989 until joining Covista, Mr. Gunning was the Senior Audit Manager at Rosenberg Selsman & Company, a certified public accounting firm. From 1976 to 1989, he was Chief Financial Officer of Flyfaire, Incorporated, a travel wholesale operator. Prior to such time, Mr. Gunning held various positions in both public and private accounting firms.

Donald Jones recently retired from his position as Senior Vice President for Chapter Services of the American Red Cross, for which he worked since 1991. Prior to joining the Red Cross, Mr. Jones was Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy. Mr. Jones served in the United States Army for over 35 years and retired in 1991 with the permanent rank of Lieutenant General.

Nicholas Merrick currently serves as President of Mt Vernon Investments, LLC, an investment company, which he has served as President since January 2002. Mr. Merrick served as Senior Vice President and Chief Financial Officer of Telergy, Inc., a high-speed fiber optic communications network company, from May, 2000 to July, 2001. Telergy filed for reorganization under the bankruptcy laws in October 2001 and is currently in the process of liquidation. Prior to joining Telergy, Mr. Merrick was Chief Executive Officer of Up2 Technologies, Inc. and Executive Vice President of Excel Communications, each of which is a subsidiary of Teleglobe, Inc. (global communications, e-business services), from 1998 until 2000. From 1996 to 1997, he was Vice President and Chief Financial Officer of Telco Communications Group, Inc., and from 1985 to 1996, he was Vice President of Corporate Finance at the Robinson-Humphrey Company, Inc. and Managing Director of R-H Capital Partners.

Kevin A. Alward was appointed Chief Operating Officer of Covista on March 29, 2001 and was elected a director of Covista on July 17, 2001. He had previously served TotalTel USA as President and Chief Operating Officer from 1994 to 1998, when he left the company to become President of North America for Destia Communications, Inc. (formerly known as Econophone, Inc.) and its successor bymerger, Viatel, Inc. In April 2000, he co-founded Blink Data Corp., a telecommunications and data services provider headquartered in northern New Jersey, where he was President and Chief Executive Officer until his return to Covista.

Board of Directors

Covista's Board of Directors currently consists of eight persons, two of whom are members of management and six of whom are non-management directors. During the fiscal year ended January 31, 2002, the Board held two meetings, each of which was attended by 80% of the directors then serving.

Covista's Board of Directors has Audit and Compensation Committees, but does not have a Nominating Committee or a committee performing a similar function. The Audit Committee currently consists of three non-management directors, Messrs. Nicholas Merrick, Donald Jones and Leon Genet. The Committee reviews, analyzes and may make recommendations to the Board of Directors with respect to Covista's financial statements and controls. The Committee has met and intends to meet from time to time with Covista's independent public accountants to monitor their activities. The Compensation Committee consists of Messrs. Henry Luken and Jay J. Miller and is charged with reviewing and recommending the compensation and benefits payable to Covista's senior executives. Mr. Leach is an ex-officio member of both the Compensation and Audit Committees.

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ITEM 11. Executive Compensation

The following table sets forth the compensation which Covista paid during the fiscal years ended January 31, 2002, 2001 and 2000 to its Chief Executive Officer and to each executive officer of Covista or person performing similar functions whose aggregate remuneration exceeded $100,000, during Covista's fiscal year ended January 31, 2001 (the "Named Executives").

Summary Compensation Table

Name and Principal Position	Fiscal Year Ended January 31	Annual Compensation Salary ($)	Annual Compensation Bonus ($)	Other Annual Compensation($)	Compensation Awards Options (1)	All Other Compensation ($)
John Leach President and Chief Executive Officer (2)	2002	$300,000	$400,000 (3)	$ 0		$ 5,250 (4)
	2001	$210,000	$ 0	$ 0		$ 15,346 (5)
Thomas P. Gunning Vice President, Treasurer and Secretary	2002	$155,000	$15,000	$ 0		$ 11,085 (6)
	2001	$147,360	$ 0	$ 0		$ 11,427 (7)
	2000	$140,000	$ 0	$ 0		$ 11,179 (8)
Kevin Alward Chief Operating Officer	2002	$235,577	$104,167	$ 0		$ 3,567 (9)

(1) See Option Grant Table below.

(2) Mr. Leach joined Covista on May 18, 2000. See part (e) for a discussion of Mr. Leach's employment agreement

(3) The amount shown includes $250,000 in bonus due to Mr. Leach from 05/01/00 to 04/30/01 but not paid until FY 2002.

(4) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $5,250.

(5) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $346 and $15,000 in reimbursement for certain relocation expenses.

(6) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $4,505; Covista company auto expenses of $1,780; and Covista's group major medical benefit of $4,800.

(7) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $4,460, $2,167 for the use of a Company's vehicle for non-business purposes and $4,800 for term life insurance premiums.

(8) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $4,200, $2,179 for the use of a Company's vehicle for non-business purposes and $4,800 for term life insurance premiums.

(9) The amount shown represents Covista's contribution under its 401(K) Deferred Compensation and Retirement Savings Plan of $3,567.

Compensation Pursuant to Plans

In October, 1996, adopted its 1996 Stock Option Plan and in February, 2000,adopted its 1999 Equity Incentive Plan, and in February, 2002 adopted its 2001 Equity Incentive Plan (the "Option Plans"). The Option Plans provide that certain options granted thereunder are intended to qualify as "incentive stock options" within the meaning of Section 422A of the United States Internal Revenue Code, while non-qualified options may also be granted under the Option Plans. Incentive stock options may be granted only to employees of Covista, while non-qualified options may be granted to non-executive directors, consultants and others as well as employees.

The Option Plans may be administered by the Compensation Committee of Covista's Board of Directors. Covista has reserved 600,000 shares of Common Stock under the 1996 Option Plan and 750,000 shares of Common Stock under its 1999 Equity Incentive Plan, and 900,000 under its 2001 Equity Incentive Plan for issuance to employees, officers, directors and consultants of Covista.

No option may be transferred by an optionee other than by will or the laws of descent and distribution, and during the lifetime of an optionee, an option may be exercised only by him. In the event of termination of employment other than by death or disability, the optionee will have one month (subject to extension not to exceed an additional two months) after such termination during which he may exercise his option. Upon termination of employment of an optionee by reason of death or permanent total disability, his option remains exercisable for one year thereafter to the extent it was exercisable on the date of such termination. No similar limitation applies to non-qualified options.

Options under the Option Plans must be granted within 10 years from the effective date of the respective Option Plan. Incentive stock options granted under the Option Plans cannot be exercised later than 10 years from the date of grant. Options granted under the Option Plans permit payment of the exercise price in cash or by delivery to Covista of shares of Common Stock already owned by the optionee having a fair market value equal to the exercise price of the options being exercised, or by a combination of such methods of payment. Therefore, an optionee may be able to tender shares of Common Stock to purchase additional shares of Common Stock and may theoretically exercise all of his stock options with no additional investment other than his original shares.

Any option which expires unexercised or that terminates upon an employee's ceasing to be employed by Covista become available again for issuance under the Option Plans.

For further information related to stock option plans, refer to Item 9 in the Notes to the Consolidated Financial Statements.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options/ SARs Granted(#)	% of Total Option/SARs Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Potential Realizable Value At Assumed Rates of Stock Appreciation For Option Term 5%	10%
A. John Leach	288,000 (1)	18.5%	$2.00	Feb 1, 2006	$124,132	$267,322
Kevin Alward	250,000	16.1%	$2.00	Mar 30,2006	$107,753	$232,050
Thomas P. Gunning	25,000	1.3%	$2.00	Feb 1, 2006	$ 10,775	$23,205
Thomas P. Gunning	12,000	3.2%	$5.65	Feb 1, 2006	$14,611	$31,466

(1) Stock option granted under the 1996 Stock Option Plan. Vesting in six equal semi-annual installments, commencing six months from the date of grant.

The following table sets forth information concerning each exercise of a stock option during Covista's fiscal year ended January 31, 2002 y each of the Named Executives, and the number and value of unexercised options granted by Covista held by each of the Named Executives on January 31, 2002

Aggregated Option Exercises in Last Fiscal Year And Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the Money Options/SARs at Fiscal Year End Exercisable/ Unexercisable
Thomas P. Gunning	16,500	$111,285	18,500/18,500	$110,159/$110,159

Compensation of Directors

For the fiscal year ended January 31, 2002, each director who was not an employee of Covista was entitled to receive a director's fee of $15,000 per year, and to be reimbursed for out-of-pocket expenses incurred in connection with attendance at meetings. However, Messrs. Anderson and Luken waived the right to receive such compensation.

Employment Contracts, Termination of Employment and Change of Control Arrangements

As Covista's Chief Executive Officer, Mr. Leach has a three-year employment agreement with Covista effective as of May 18, 2000, pursuant to which Mr. Leach was paid base salary at the rate of $300,000 per annum during fiscal 2001. Pursuant to this agreement, Mr. Leach was also entitled to receive a signing bonus in the amount of $25,000 to cover relocation and other expenses, but to date Mr. Leach has been paid only $15,000 of this amount. Mr. Leach is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Mr. Leach's attainment of annual revenue and earnings targets as well as management goals set by the Board of Directors. Mr. Leach was guaranteed a minimum bonus payment of $150,000 during the first year of this agreement.

In connection with his appointment as Chief Executive Officer of Covista, Mr. Leach was granted an option under Covista's 1996 Stock Option Plan to purchase 288,000 shares of Covista Common Stock. The option granted to Mr. Leach was scheduled to vest over a period of three years, in six equal semi-annual installments, the first of which commenced on November 18, 2000. The exercise price for the option was $14.25 and was based on calculated based on the average closing price of the Covista Common Stock for the 40 trading days prior to May 18, 2001. In lieu of adjusting the exercise price of Mr. Leach's options in the manner provided in his employment agreement, on February 1, 2001 Covista granted to Mr. Leach an option to purchase 288,000 shares of Covista Common Stock, vesting over a period of three years, in six equal semi-annual installments, the first of which commenced on August 1, 2001. The exercise price for the option is $2.00 per share and is based on the fair market value of the Covista Common Stock on the date of grant. The option expires after a term of ten years.

In the event of a "change of control" of Covista, as defined in his employment agreement, Mr. Leach's stock option, and similar benefits, if any, shall be deemed to vest in full on the effective date of such change of control. Pursuant to the agreement, a "change of control" shall be deemed to occur if: (i) any "person" or "group" (as such terms are used in Sections 3, 3(a), 9 and 13(d) of the Securities Exchange Act of 1934, as amended (the "Act")) other than Walt Anderson, Revision LLC or any of their respective affiliates becomes a beneficial owner (as such term is used in the rules promulgated under the Act), directly or indirectly, of securities of Covista representing 50 percent or more of the combined voting power of Covista's then outstanding securities; (ii) a change in "control" of Covista (as such term is defined in Rule 12b-2) shall have occurred; (iii) the majority of the Board of Directors, as such entire Board of Directors was composed as of May 18, 2000, no longer serve as directors of Covista, except that there shall not be counted toward such majority who no longer serve as directors Mr. Leach or any director who ceased to serve either prior to the date of the change in control, for any reason, or at any other time due to voluntary resignation (other than in connection with an event described in (iv) or (v) below), death, disability or termination for cause; (iv) the stockholders of Covista approve a plan of complete liquidation of Covista or an agreement for the sale or disposition by Covista of all or substantially all of Covista's assets; or (v) the stockholders of Covista approve a merger or consolidation of Covista with any other company, other than a merger or consolidation which would result in the combined voting power of Covista's voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50 percent of the combined voting power of the voting securities of Covista or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that no change in control shall be deemed to have occurred in any plan of liquidation, sale of assets, merger or consolidation provided in (iv) and (v) above is not consummated. In addition, any transaction involving a leveraged buyout or other acquisition of Covista which would otherwise constitute a change in control, in which Mr. Leach participates in the surviving or successor entity (other than solely as an employee or consultant) will not constitute a change in control.

As Covista's Chief Operating Officer, Mr. Alward has a two-year employment agreement effective as of March 29, 2001, pursuant to which Mr. Alward is paid an annual base salary of $250,000. Pursuant to this agreement, Mr. Alward received a signing bonus in the amount of $24,000. Mr. Alward is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Covista's attainment of annual revenue and earnings targets as well as management goals set by the Board of Directors. Mr. Alward's agreement provides that he shall receive the same percentage bonus as Mr. Leach. Mr. Alward is guaranteed a minimum bonus payment of $125,000 for each year of this agreement.

In connection with his appointment as Chief Operating Officer of Covista, Mr. Alward was granted an option under Covista's 2001 Equity Incentive Plan to purchase 250,000 shares of Covista Common Stock. The option granted to Mr. Alward vests over a period of five years, in ten equal semi-annual installments, the first of which commenced on September 29, 2001. The exercise price for the option is $2.00.

In the event of a "change of control" of Covista, as defined in his employment agreement, Mr. Alward's stock option, and similar benefits, if any, shall be deemed to vest in full on the effective date of such change of control. Mr. Alward's employment agreement defines "change of control" in the same manner as Mr. Leach's employment agreement, as described above.

Compensation Committee Interlocks and Insider Participation

Jay J. Miller, a director of Covista, provided various legal services for Covista during fiscal 2002. In fiscal 2002, Covista paid $144,574 to Mr. Miller for services rendered and accrued during fiscal 2002. As of February 22, 2002, Covista had invoices payable to Mr. Miller totaling $179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party.

The following report describes the policies pursuant to which compensation was paid to executive officers of Covista for performance during the fiscal year ended January 31, 2002.

Compensation Philosophy and Approach. Generally, Covista seeks to attract, retain and motivate its executive officers through a combination of base salary, incentive awards based upon individual performance and stock option awards under The Covista Communications, Inc. 2001 Equity Incentive Plan and otherwise. The Board of Directors believes that a substantial portion of the aggregate annual compensation of each executive officer should be influenced by the performance of Covista and the individual contribution of the executive officer.

Base Salaries. The Board of Directors believes that the base salaries of Covista's executive officers for fiscal 2001 were generally below those for other comparable positions within the telecommunications service industry and similar industries. However, Covista places significant emphasis on incentive awards and stock option grants as a means of motivating and rewarding its management. The Board of Directors believes that this strategy provides optimal incentives for management to create long-term stockholder value.

Incentive Compensation Payments. In addition to base pay, some of Covista's senior executives (including its Chief Executive Officer) are eligible to receive bonuses and stock option awards. Bonuses and stock options may be awarded, based upon the individual performance of each executive officer at the sole discretion of the Board of Directors. During the Fiscal Year 2002 John Leach received a cash bonus of $400,000 of which $250,000 was payable to Mr. Leach for the period May 1, 2000 to April 30, 2001 but not paid until FY 2002; Kevin Alward received a bonus of $104,167; and Thomas Gunning received a bonus of $15,000. Stock option grants made to the Named Executive Officers during fiscal 2002 are described in "Option/SAR Grants in Last Fiscal Year."

Compensation of the Chief Executive Officer. The compensation policies applicable to Covista's Chief Executive Officer are similar to those applicable to Covista's other executive officers. Mr. Leach has a three-year employment agreement with Covista effective as of May 18, 2000, pursuant to which Mr. Leach was paid base salary at the rate of $300,000 per annum during fiscal 2001. Pursuant to this agreement, Mr. Leach was also entitled to receive a signing bonus in the amount of $25,000 to cover relocation and other expenses, but to date Mr. Leach has been paid only $15,000 of this amount. Mr. Leach is also entitled to receive an annual bonus in an amount not to exceed 100 percent of his then effective base salary, based upon Mr. Leach's attainment of annual revenue and earning targets, as well as management goals set by the Board of Directors. Mr. Leach was guaranteed a minimum bonus payment of $150,000 during the first year of this agreement.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners. The following table sets forth the beneficial ownership of Covista's Common Stock as of April 30, 2002 by each person or group known by Covista to be the beneficial owner of five percent or more of the outstanding shares of Covista Common Stock. Unless otherwise indicated, each such person (alone or with family members) has sole voting and dispositive power with respect to the shares listed opposite such person's name.

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(2)
Kevin A. Alward 182 Powell Road Allendale, NJ 07401	1,255,779(3)	9.9%
Walt Anderson 2000 L Street, N.W., #202 Washington, DC 20036	2,023,125(4)	16.1%
Warren Feldman 45A Samworth Road Clifton, NJ 07012	1,119,578(5)	8.9%
Foundation for the International Non-Governmental Development of Space 1023 31st Street NW Suite 300 Washington, DC 20007	923,844(6)	7.3%
Henry G. Luken, III 400 Fairway Lane Soddy Daisy, TN 37379	4,531,133(7)	35.9%

(1) Except as otherwise set forth in the footnotes to this table, all shares are beneficially owned and sole investment and voting power is held by the persons named above, to the best of Covista's knowledge. Shares of Covista Common Stock subject to options that are currently exercisable or exercisable within 60 days of December 11, 2001 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Based on 10,819,405 shares outstanding.

(3) Includes 25,000 shares of Covista Common Stock issuable to Mr. Alward under presently exercisable options. Also includes 186,516 shares of Covista Common Stock owned by trusts of which Mr. Alward's minor children are beneficiaries, as to which Mr. Alward disclaims beneficial ownership. Based on the Schedule 13D jointly filed by Mr. Alward and certain related entities on November 16, 2001.

(4) Includes 1,297,796 shares of Covista Common Stock owned of record by Revision LLC, a wholly owned subsidiary of Gold & Appel Transfer, S.A., as to all of which shares Mr. Anderson exercises sole voting and dispositive power. Of the 1,297,796 shares owned of record by Revision LLC, 1,179,732 are pledged to Donald A. Burns to secure a loan. Also includes 725,329 shares owned by the Foundation for the International Non-Governmental Development of Space, of which Mr. Anderson is the President and a director, and as to which Mr. Anderson disclaims beneficial ownership. Based on the Schedule 13D/A jointly filed by Walt Anderson, Gold & Appel and Revision on November 19, 2001. Notice has been received from Mr. Burns legal representative that Mr. Anderson is in default of the loan agreement and that Mr. Burns is to exercise his rights as a secured party with respect to the pledged shares.

(5) Includes 300,000 shares of Covista Common Stock owned by The Warren H. Feldman Family L.L.C., as to which shares Mr. Feldman disclaims beneficial ownership. Based on the Schedule 13D/A filed by Mr. Feldman on August 22, 2001.

(6) Of the 923,844 shares of Covista Common Stock owned by the Foundation for the International Non-Governmental Development of Space, 703,529 shares are pledged to Donald A. Burns to secure a loan. Notice has been received from Mr. Burns legal representative that Mr. Anderson is in default of the loan agreement and that Mr. Burns is to exercise his rights as a secured party with respect to the pledged shares.

Security Ownership of Management. The following table sets forth as of April 30, 2002, information concerning the beneficial ownership of Covista Common Stock by each director, each nominee for election as a director, and each Named Executive, and for all directors, director nominees and executive officers as a group:

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(2)
Kevin A. Alward	1,255,779(3)	10.0%
Walt Anderson	2,946,969 (4)	23.3%
Leon Genet	41,120	*
Thomas P. Gunning	62,300(5)	*
Donald Jones	5,000	*
A. John Leach, Jr.	438,000(6)	3.5%
Henry G. Luken, III	4,531,133(7)	35.9%
Nicholas Merrick	100	*
Jay J. Miller	35,400(8)	*
All directors, director nominees and executive officers as a group (9 persons)	9,328,601(3)-(7)	74.0%

* Less than one percent.

(1) Except as otherwise set forth in the footnotes to this table, all shares are beneficially owned and sole investment and voting power is held by the persons named above, to the best of Covista's knowledge. Shares of Covista Common Stock subject to options that are currently exercisable or exercisable within 60 days of December 11, 2001 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Based on 10,819,405 shares outstanding

(3) Includes 25,000 shares of Covista Common Stock issuable to Mr. Alward under presently exercisable options. Also includes 186,516 shares of Covista Common Stock owned by trusts of which Mr. Alward's minor children are beneficiaries, as to which Mr. Alward disclaims beneficial ownership. Based on the Schedule 13D jointly filed by Mr. Alward and certain related entities on November 16, 2001.

(4) Includes 1,297,796 shares of Covista Common Stock owned of record by Revision LLC, a wholly owned subsidiary of Gold & Appel Transfer, S.A., as to all of which shares Mr. Anderson exercises sole voting and dispositive power. Of the 1,297,796 shares owned of record by Revision LLC, 1,179,732 shares are pledged to Donald A. Burns to secure a loan. Covista has received notice from Mr. Burns that the loan is in default and it is Mr. Burns' intention to take ownership of the pledged shares. Also includes 725,329 shares owned by the Foundation for the International Non-Governmental Development of Space, of which Mr. Anderson is the President and a director, and as to which Mr. Anderson disclaims beneficial ownership. Based on the Schedule 13D/A jointly filed by Walt Anderson, Gold & Appel Revision on November 19, 2001.

(5) Includes 37,000 shares of Covista Common Stock issuable to Mr. Gunning under currently exercisable options. Does not include 25,400 shares owned by Mr. Gunnings' spouse.

(6) Includes 192,000 shares of Covista Common Stock issuable to Mr. Leach under currently exercisable options.

(7) Based on the Schedule 13D/A filed by Mr. Luken on April 13, 2001.

(8) Includes 35,000 shares of Covista Common Stock issuable to Mr. Miller under currently exercisable options.

c) Changes in Control

In August, 2000, Walt Anderson and two entities controlled by him, Gold & Appel Transfer, S.A. and Revision LLC, along with FINDS, entered into a Stock Pledge Agreement with Donald A. Burns, which was subsequently amended in October 2000 (as amended, the "Pledge Agreement"). Pursuant to the Pledge Agreement, Revision LLC has pledged 1,179,732 shares of Common Stock, and FINDS has pledged 703,529 shares of Common Stock, to secure a $13,000,000 loan made by Mr. Burns to Mr. Anderson, Gold & Appel Transfer, S.A. and Revision LLC. Such loan is currently in default, and consequently Mr. Burns has voting power with respect to the pledged shares. Were Mr. Burns to foreclose upon the 1,883,261 shares of Common Stock pledged pursuant to the Pledge Agreement, which represent approximately 16% of the outstanding Common Stock, it could result in a change of control of Covista. Gold & Appel has paid back approximately $4,200,000 of principal on this loan from Mr. Burns. The current value of the loan with accrued interest is approximately $9,250,000. Covista has received a notification from Mr. Burns confirming that it is Mr. Burns' intention to take ownership of the pledged shares.

On February 1, 2001, the Board of Directors of Covista authorized a transaction (the "Stock Issuance Transaction") involving the issuance and sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. Pursuant to the rules of the NASD, consummation of the Stock Issuance Transaction was subject to the approval of Covista's shareholders because Messrs. Leach and Luken currently were directors and officers of Covista, and, in addition, it was expected that Mr. Alward would become an officer of Covista. The transaction was approved at a special shareholders meeting on March 29, 2001. The stock was issued in April, 2001.

A change in control of Covista may be deemed to have occurred as a result of the foregoing transactions, as Walt Anderson now controls 23.3% of the outstanding Common Stock, and Henry G. Luken III now controls 35.9% of the outstanding Common Stock.

ITEM 13. Certain Relationships and Related Transactions

Jay J. Miller, a Director of Covista, has provided various legal services for Covista during Fiscal 2002. In Fiscal 2002, Covista paid $144,574 to Mr., Miller for services rendered and accrued for in Fiscal 2002. As of January 31, 2002, Covista owed Mr. Miller $179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party. In February, 2002, Covista granted to Mr. Miller 35,000 non-statutory shares optionable at $2.00 per share.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Company, LPJ, Inc. During Fiscal 2002, LPJ, Inc. was paid commissions of $93,066. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

Walt Anderson, a Director of Covista, serves on the Board of Directors of Capsule Communications, as described in ITEM 10. Henry G. Luken III, the Chairman of the Board of Covista is a major stockholder of Capsule Communications. Covista both purchases and sells services from Capsule Communications, Inc. Sales to Capsule in Fiscal 2002 were approximately $615,000. Purchases from Capsule were approximately $660,000. All transactions were based on competitive terms obtained on an arm's length basis. Covista has subsequently merged with Capsule Communications (see Item 1.-Business-Subsequent Events).

Covista has entered into a lease agreement for 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III who is Covista's Chairman of the Board and its principal shareholder. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of $86,400 from September 1, 2001 to August 30, 2002; $115,200 from September 1, 2002 to August 30, 2003; $144,000 from September 1, 2003 to August 30 2004, with the last two years to be $144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms similar to an arm's length transaction.

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $4,000,000. The loan matures on February 1, 2003 together with accumulated interest at a rate of 7% per annum. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has recently filed for Chapter 11 reorganization; however at the time of this filing is continuing to perform under the agreement. Mr. Luken also advanced the company $400,000, the proceeds of which were used for construction of new facilities.

On February 1, 2001, the Board of Directors of the Company, subject to perfunctory shareholder's approval which was obtained on March 29, 2001, authorized the sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. The purchase price for the Common Stock to be issued to Messrs. Alward, Leach and Luken is $2.00 per share, based on the fair market value of shares at February 2, 2001. The stock sale was consummated in April 2001 with the issuance of 3,150,000 shares of Common Stock. The Board of Directors authorized a decrease of 350,000 shares to be purchased by Mr. Leach.

On February 1, 2001, the Board of Directors of the Company authorized the acquisition of Blink Data Corporation, a telecommunications company, of which Kevin Alward was a principal shareholder, officer and director, for 300,000 shares of the Company's Common Stock valued at the fair market value at March 29, 2001, for total consideration of $900,000. The transaction was completed on March 29, 2001.

On July 24, 2001, the Company issued a note receivable to Capsule Communications, Inc. of which a director and the chairman of the Company are principal shareholders. The note was for a total principal of $200,000 with interest payable of 8 ¾% to be paid no later than July 24, 2002. On August 9, 2001, the Company issued a note receivable to Capsule Communications, Inc. The note was for a total principal of $300,000 with interest payable of 8 ¾% to be paid no later than August 9, 2002.

On August 31, 2001, Covista entered into a transaction with Applied Financial Corp. an unaffiliated firm involving the sale and leaseback of a telecommunications switch. Covista realized proceeds of approximately $1,250,000 from the sale portion of the transaction, and agreed to lease back the switch for a three-year period at a cost of approximately $420,000 per annum. Henry G. Luken, III provided an unconditional guaranty of Covista's payment obligations to Applied Financial under the lease. Covista did not compensate Mr. Luken for providing such guaranty.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the fifteenth day of May, 2002

COVISTA COMMUNICATIONS, INC.
(Registrant)

By: /S/ Henry G. Luken III
Henry G. Luken III
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ Henry G. Luken III Henry G. Luken III	Chairman of the Board	May 15, 2002
/S/ Walt Anderson Walt Anderson	Director	May 15, 2002
/S/ Kevin Alward Kevin Alward	Director, Chief Operating Officer	May 15, 2002
/S/ Leon Genet Leon Genet	Director	May 15, 2002
/S/ Donald Jones Donald Jones	Director	May 15, 2002
/S/ A. John Leach A. John Leach	Director, President and Chief Executive Officer	May 15, 2002
/S/ Nicholas Merrick Nicholas Merrick	Director	May 15, 2002
/S/ Jay J. Miller Jay J. Miller	Director	May 15, 2002
/S/ Thomas P. Gunning Thomas P. Gunning	Vice President, Treasurer and Secretary, Chief Financial Officer and Principal Accounting Officer	May 15, 2002

COVISTA COMMUNICATIONS, INC.

AND SUBSIDIARIES

ITEM 14. Exhibits and Financial Statements Schedule Years Ended January 31, 2002, 2001, and 2000

INDEX

(a) (1) **Financial Statements:** The following consolidated financial statements of Covista Communications, Inc.. and subsidiaries are included at the end of this Report:

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Schedules other than those listed above are omitted because they are not required, not applicable or the information has been otherwise supplied.

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Covista Communications, Inc.
150 Clove Road
Little Falls, New Jersey 07424

We have audited the accompanying consolidated balance sheets of Covista Communications, Inc. and subsidiaries (the "Company") as of January 31, 2002 and 2001, and the related consolidated statements of loss and comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2002. Our audits also included the consolidated financial statement schedule listed in the Index at Item 14(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Covista Communications, Inc. and subsidiaries as of January 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
New York, New York
April 26, 2002
(May 14, 2002 as to Note 21b)

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JANUARY 31, 2002 AND 2001

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,379,038	$ 2,691,889
Investments available for sale	439,773	537,007
Trade accounts receivable (net of allowance for doubtful accounts of ($4,987,130 and $4,075,223 in 2002 and 2001, respectively)	10,252,837	20,526,178
Notes receivable	500,000	-
Prepaid expenses and other current assets	1,373,780	1,225,463
Total current assets	13,945,428	24,980,537
Property and equipment, net	12,489,626	13,020,579
Deferred line installation costs (net of accumulated amortization of $843,049 and $745,353 in 2002 and 2001, respectively)	174,785	216,672
Other assets (net of accumulated amortization of $ 846,452 and $ 33,761 In 2002 and 2001, respectively.	4,646,952	879,614
	$ 31,256,791	$ 39,097,402
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 19,465,274	$ 27,960,046
Other current and accrued liabilities	4,434,795	2,834,557
Salaries and wages payable	991,012	1,304,818
Current portion of long-term debt	381,405	615,053
Total current liabilities	25,272,486	32,714,474
Other long-term liabilities	15,466	223,788
Long-term debt	4,400,000	382,047
Commitments and contingencies (Note 14)		
SHAREHOLDERS' EQUITY:		
Common Stock, par value $.05 per share; authorized 50,000,000 shares, issued 12,385,757 shares in 2002 and 9,505,824 shares in 2001	619,288	475,291
Additional paid-in capital	25,650,098	30,016,454
Accumulated deficit	(23,255,107)	(11,285,519)
	3,014,279	19,206,226
Unearned ESOP shares	-	(12,225,000)
Treasury stock-at cost – 1,536,419 shares in 2002 and 2001, respectively	(1,445,440)	(1,445,440)
Accumulated other comprehensive income	-	241,307
Total shareholders' equity	1,568,839	5,777,093
	$ 31,256,791	$ 39,097,402

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	2002	2001	2000
NET SALES	$ 95,312,696	$ 133,230,437	$ 139,760,497
COSTS AND EXPENSES:			
Cost of sales	76,475,802	116,059,002	112,794,378
Access charge settlement (Note 18)	-	(1,264,483)	-
Selling, general and administrative (excluding stock compensation)	30,986,877	26,902,962	27,990,145
Restructuring charge	-	-	(318,879)
Other compensation (Note 12)	-	-	5,770,554
Stock compensation	12,011	266,565	204,015
Total costs and expenses	107,474,690	141,964,046	146,440,213
OPERATING LOSS	(12,161,994)	(8,733,609)	(6,679,716)
OTHER INCOME (EXPENSE):			
Interest income	159,996	167,583	115,119
Other income	274,466	41,994	1,105
Interest expense	(242,056)	(105,272)	(147,092)
Total other income (expense), net	192,406	104,305	(30,868)
LOSS BEFORE INCOME TAXES	(11,969,588)	(8,629,304)	(6,710,584)
INCOME TAX PROVISION	-	-	2,703,618
NET LOSS	(11,969,588)	(8,629,304)	(9,414,202)
OTHER COMPREHENSIVE INCOME, NET OF TAX Unrealized holding gain	-	79,531	61,055
COMPREHENSIVE LOSS	$ (11,969,588)	$ (8,549,773)	$ (9,353,147)
BASIC LOSS PER COMMON SHARE	$ (1.17)	$ (1.18)	$ (1.33)
DILUTED LOSS PER COMMON SHARE	$ (1.17)	$ (1.18)	$ (1.33)

See notes to consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income	Total
IANUARY 31, 1999	$ 455,739	$ 22,809,518	$ 6,757,987	$ (1,456,781)	$ (12,225,000)	$ 100,721	$ 16,442,184
iolding gain	-	-	-		-	61,055	61,055
mployee stock options	18,727	1,780,422	-	-	-	-	1,799,149
ibution (NOTE 12)	-	250,000	-	-	-	-	250,000
ent (NOTE 12)	-	4,870,554	-	-	-	-	4,870,554
stock grants	-		-	(1,769)	-	-	(1,769)
	-	-	(9,414,202)	-	-	-	(9,414,202)
JANUARY 31, 2000	474,466	29,710,494	(2,656,215)	(1,458,550)	(12,225,000)	161,776	14,006,971
holding gain	-	-	-	-	-	79,531	79,531
employee stock options / grants	825	135,187	-	-	-	-	136,012
shares for other assets	-	170,773	-	13,380	-	-	184,153
f stock grants	-	-	-	(270)	-	-	(270)
	-	-	(8,629,304)	-	-	-	(8,629,304)
JANUARY 31, 2001	475,291	30,016,454	(11,285,519)	(1,445,440)	(12,225,000)	241,307	5,777,093
mon Stock	157,500	6,142,500	-	-	-	-	6,300,000
employee stock options / grants	1,497	41,944	-	-	-	-	43,441
shares for other assets	15,000	885,000	-	-	-	-	900,000
of ESOP	(30,000)	(12,195,000)	-	-	12,225,000	-	-
Stock Grants	-	759,200	-	-	-		759,200
in on sale of investments						(241,307)	(241,307)
	-	-	(11,969,588)	-	-	-	(11,969,588)
JANUARY 31, 2002	$ 619,288	$ 25,650,098	$ (23,255,107)	$ (1,445,440)	$ -	$ -	$ 1,568,839

consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (11,969,588)	$ (8,629,304)	$ (9,414,202)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,568,631	3,577,995	2,985,359
Provision for doubtful accounts	5,382,384	2,346,761	1,074,916
Non-cash stock compensation expense	12,011	266,565	5,324,569
Deferred income taxes	-	-	2,703,618
Restructuring (credit) charge, net of cash paid	-	-	(318,879)
Loss on disposal of property and equipment	-	88,690	16,236
(Gain) loss on sale of investments	(265,733)	5,317	-
Change in assets and liabilities:			
(Increase) decrease in assets:			
Trade accounts receivable	4,890,957	789,518	(6,004,893)
Prepaid expenses and other current assets	251,683	1,339,568	(305,546)
Other assets	(164,300)	(293,584)	52,536
Increase (decrease) in liabilities:			
Accounts payable	(8,494,772)	3,157,678	4,102,224
Other current and accrued liabilities	2,033,621	(558,312)	(110,787)
Other long-term liabilities	(208,322)	(26,744)	(43,968)
Net cash (used in) provided by operating activities	(3,963,428)	2,064,148	61,183
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Assets acquired in purchase of Blink Data Corporation	90,402	-	-
Proceeds from sales and maturities of investments available for sale (net)	115,529	86,788	-
Purchases of property and equipment	(5,465,329)	(3,227,593)	(3,018,710)
Proceeds from sale of property and equipment and leaseback transactions	2,338,038	1,975	17,216
Notes receivable from related party	(500,000)	-	-
Payments for deferred line installation costs	(55,809)	(47,621)	(55,232)
Payments for prepaid network capacity	(4,000,000)	-	-
Collection on notes receivable from employees	-	-	45,402
Net cash used in investing activities	(7,477,169)	(3,186,451)	(3,011,324)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the Issuance of Common Stock	6,300,000	-	-
Proceeds from Stock Options exercised	43,441	8,437	1,799,149
Note payable to related party	4,400,000	-	-
Repayment on bank borrowings	(615,695)	(568,724)	(526,421)
Net cash provided by (used in) financing activities	10,127,746	(560,287)	1,272,728

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2002, 2001 AND 2000
(Continued)

	2002	2001	2000
NET DECREASE IN CASH AND CASH EQUIVALENTS	$(1,312,851)	$(1,682,590)	$(1,677,413)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,691,889	4,374,479	6,051,892
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,379,038	$ 2,691,889	$ 4,374,479
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest	$ 242,056	$ 105,272	$ 147,092
Income taxes	$ 1,560	$(1,643,227)	$ 3,400
Non-cash:			
Issuance of treasury stock for customer lists included in other assets	$ -	$ 184,153	$ -
Issuance of Common Stock in connection with Blink Data acquisition for other assets and cash	$ 900,000	$ -	$ -

1. NATURE OF OPERATIONS

Covista Communications, Inc. ("Covista"), and its wholly-owned subsidiaries (collectively, the "Company") operates as a switch based resale common carrier providing twenty-four hour, seven day a week, domestic and international long distance telecommunications service to customers throughout the United States. The Company's principal customers are primarily businesses and other common carriers. On September 15, 2000, the Company changed its name from Total-Tel USA Communications, Inc. to Covista Communications, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of Covista Communications, Inc. and its subsidiaries, all of which are wholly-owned. All intercompany transactions and balances have been eliminated in the consolidated financial statements.

Revenue Recognition - The Company's revenues, net of sales discounts, are recognized in the period in which the service is provided, based on the number of minutes of telecommunications traffic carried, and a rate per minute. Access and other service fees charged to customers, typically monthly, are recognized in the period in which service is provided.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization is being provided by use of the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or the useful lives of the asset.

The estimated useful lives of the principal classes of assets are as follows:

Classification	Years
Machinery and equipment	5-10
Office furniture, fixtures and equipment	7-10
Vehicles	3-5
Leasehold improvements	2-10
Computer equipment and software	5-7

Deferred Line Installation Costs - The Company defers charges from other common carriers which cover the cost of installing telephone transmission facilities (lines). Amortization of these costs is provided using the straight-line method over the contract life of the lines ranging from three to five years.

Customer Lists - Customer lists, included in other assets, represents the fair value of the customer base acquired and is being amortized using an accelerated method over a period of 3 years. The carrying value of the customer list is reviewed on a quarterly basis for the existence of facts or circumstances, both internally and externally, that may suggest impairment. During fiscal year 2001, the Company acquired a customer list through the issuance of 14,234 shares of treasury stock valued at the fair market value of the Company's Common Stock on the date of the transaction. During fiscal year 2002, the Company acquired a customer list through an acquisition by issuing 300,000 shares of its Common Stock at the fair market value of the Company's Common Stock on the date of the transaction. The excess of the purchase price over the net assets of company acquired were allocated 100% to the customer list.

Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Concentrations of Credit Risk - The Company sells its telecommunications services and products primarily to small to medium size businesses and wholesale customers. The Company performs ongoing credit evaluations of both its retail and wholesale customers. The Company generally does not require collateral, however when circumstances warrant, deposits are required. Recent conditions in the telecommunications industry have given rise to an increase in potential doubtful accounts. Allowances are maintained for such potential credit losses. The Company has entered into offset arrangements with certain of its customers, who are also vendors, allowing for the ability to offset receivables against the Company's payables balance.

Loss per Share - Basic loss per share is represented by net loss available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or stock options were exercised or converted into Common Stock during the period, if dilutive (see Note 15).

Authorized Common Stock – On February 23, 2000, the Company's shareholders approved an increase in the number of authorized shares of Common Stock from 20,000,000 to 50,000,000 shares.

Cash and Cash Equivalents - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and money market accounts.

Fair Value of Financial Instruments - For cash and cash equivalents, the carrying value is a reasonable estimate of its fair value. The estimated fair value of publicly traded financial instruments is determined by the Company using quoted market prices, dealer quotes and prices obtained from independent third parties. For financial instruments not publicly traded, fair values are estimated based on values obtained from independent third parties or quoted market prices of comparable instruments. The fair value of the debt was determined based on interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities for debt issues that are not traded on quoted market prices. However, judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

The carrying values and fair values of financial instruments are as follows:

	2002		2001	
	Carrying Value	Fair Value	Value	Value
Assets:				
Cash and cash equivalents	$ 1,379,038	$ 1,379,038	$ 2,691,889	$ 2,691,889
Investments available for sale	$ 439,773	$ 439,773	$ 537,007	$ 537,007
Liabilities:				
Debt	$ 4,781,405	$ 4,781,405	$ 997,100	$ 997,100

Long-Lived Assets - The Company accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period that the impairment occurred.

Recent Accounting Pronouncements – Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted FAS 133 effective February 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operation, or cash flows of the Company.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Covista does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements, beyond the cessation of goodwill amortization on future business combinations. As of January 31, 2002 Covista has no Goodwill recorded on its books.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective February 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS 142 also requires Covista to complete a transitional goodwill impairment test six months from the date of adoption. Covista is currently assessing but has not yet determined the impact of SFAS 142 on its financial position and results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for all fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing but has not yet determined the impact of SFAS 143 on its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets", which is effective February 1, 2002. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 requires that long-lived assets be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing but has not yet determined the impact of SFAS 144 on its financial position and results of operations.

3. SEGMENT REPORTING

The Company sells telecommunication services to two distinct segments: a retail segment, consisting primarily of small to medium size businesses within the Northeastern United States, and a wholesale segment, with sales to other telecommunications carriers.

In addition to direct costs, each segment is allocated a proportion of the Company's operating expenses, including utilization of its switch and facilities. The allocation of expenses is based upon the minutes of use flowing through the Company's switching network. There are no intersegment sales. Assets are held at the consolidated level and are not allocable to the operating segments. Management evaluates performance on operating results of the two business segments.

Summarized financial information concerning the Company's reportable segments is shown in the following table.

	Retail	Wholesale	Total
2002			
Net sales	$ 47,423,502	$ 47,889,194	$ 95,312,696
Gross margin	$ 18,021,471	$ 815,423	$ 18,836,894
Operating loss	$ (7,013,376)	$ (5,148,618)	$(12,161,994)
2001			
Net sales	$ 53,487,012	$ 79,743,425	$133,230,437
Gross margin	$ 13,082,019	$ 5,353,899	$ 18,435,918
Operating loss	$ (6,541,566)	$ (2,192,043)	$ (8,733,609)
2000			
Net sales	$ 69,023,194	$ 70,737,303	$139,760,497
Gross margin	$ 20,712,262	$ 6,253,857	$ 26,966,119
Operating loss	$ (3,905,664)	$ 2,996,502	$ (909,162)
Operating (loss) income after other compensation	$ (6,760,900)	$ 81,184	$ (6,679,716)

4. INVESTMENT SECURITIES

Investments available for sale consist of:

	2002				2001			
		Gross Unrealized		Market		Gross Unrealized		Market
	Cost	Gain	Loss	Value	Cost	Gain	Loss	Value
Bond	$ 25,000	$ -	$ -	$ 25,000	$ 25,000	$ -	$ -	$ 25,000
Mutal Funds	414,773	-	-	414,773	200,000	-	$ -	200,000
Common Stock	-	-	-	-	70,700	241,307	$ -	312,007
	$439,773	$ -	$ -	$439,773	$295,700	$241,307	$ -	$537,007

The deferred tax on the net unrealized gains at January 31, 2002 and 2001 were $0 and $0, respectively; resulting in net amounts of $0 and $241,307 in Accumulated Other Comprehensive Income.

The bond will mature in 2005.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2002	2001
Machinery and equipment	$ 17,064,974	$ 16,429,970
Office furniture, fixtures and equipment	2,672,237	2,755,736
Leasehold improvements	1,497,811	1,375,200
Vehicles	181,256	181,256
Computer equipment and software	7,325,243	6,881,624
Machinery and equipment in progress	2,102,895	93,339
	30,844,416	27,717,125
Less accumulated depreciation and amortization	18,354,790	14,696,546
	$ 12,489,626	$ 13,020,579

Depreciation and amortization expense related to property and equipment for the years ended January 31, 2002, 2001 and 2000, was $3,658,244, $3,433,004, and $2,862,151, respectively.

6. INCOME TAXES

The provision (benefit) for income taxes includes the following:

	2002	2001	2000
Federal			
Current	$ -	$ -	$ -
Deferred	-	-	1,893,850
State income taxes			
Current	-	-	-
Deferred	-	-	809,768
	$ -	$ -	$ 2,703,618

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are provided against assets that are not likely to be realized.

The income tax effects of significant items comprising the Company's net deferred tax asset (liability) are as follows:

	2002		2001	
	Current	Long-term	Current	Long-term
Deferred tax assets:				
Allowance for doubtful accounts	$ 1,991,860	$ -	$ 1,516,570	$ -
Accrued compensation expense	-	268,130	-	597,480
Unamortized lease incentive	-	-	-	89,380
Accrued expenses	332,560	-	77,180	-
Net operating loss carryforward	-	10,877,719	-	6,566,190
Alternative minimum tax credit		593,940		593,940
Other	74,550	-	-	-
Total gross deferred tax assets	2,398,970	11,739,789	1,593,750	7,846,990
Less: Valuation allowance	(2,398,970)	(9,530,179)	(1,593,750)	(5,812,790)
Total net deferred tax asset	-	2,209,610	-	2,034,200
Deferred tax liabilities:				
Property and equipment	-	(2,209,610)	-	(1,937,820)
Other	-	-	-	(96,380)
Total deferred tax liabilities	-	(2,209,610)	-	(2,034,200)
Net deferred tax asset (liability)	$ -	$ -	$ -	$ -

A reconciliation from the U.S. statutory tax rate of 34% to the effective tax rate for income taxes on the consolidated statements of (loss) earnings is as follows:

	2002	2001	2000
Computed expense at statutory rates	$ (4,069,660)	$ (2,933,963)	$ (2,281,599)
(Reductions) increase in taxes resulting from:			
Tax exempt interest income	(550)	(3,140)	(3,320)
State taxes (benefit), net of federal income tax benefit	(708,853)	(513,164)	(191,230)
Put agreement	-	-	1,219,549
Valuation allowance	4,522,609	3,703,659	3,702,881
Other	(256,454)	(253,392)	257,337
	$ -	$ -	$ 2,703,618

At January 31, 2002, for Federal income tax purposes, the Company had net operating loss carryforwards of approximately $24.4 million which will begin to expire in stages in the year 2020, and alternative minimum tax credit carryforwards of approximately $594,000. The alternative minimum tax credit does not expire.

7. LEASE COMMITMENTS

The Company rents various facilities under lease agreements classified as operating leases. Several of the underlying agreements contain certain incentives eliminating payments at the inception of the lease. Lease incentives are amortized on a straight-line basis over the entire lease term. Under terms of these leases, the Company is required to pay its proportionate share of increases in real estate taxes, operating expenses and other related costs.

The Company leases warehouse space in Belleville, New Jersey from a partnership in which two of the partners were directors and major shareholders of the Company. Both partners are no longer directors. During the fiscal years ended January 31, 2002, 2001 and 2000, the Company paid rent of $21,530, $49,479 and $62,848, respectively to the partnership. The lease expired on November 30, 1998, and has been renewed subject to termination upon 120-days prior written notice by either party. The lease was amended on August 31, 1999 to provide an annual rate of $47,980. The lease terminated during the fiscal year ending January 31, 2002.

Covista has entered into a lease agreement for 28,000 square feet of office space in Chattanooga, Tennessee, with Henry G. Luken III who is Covista's Chairman of the Board and its principal shareholder. The term of the lease is for five years beginning September 1, 2001. The lease provides for annual rent of $86,400 from September 1, 2001 to August 30, 2002; $115,200 from September 1, 2002 to August 30, 2003; $144,000 from September 1, 2003 to August 30 2004, with the last two years to be $144,000 annually adjusted for the Consumer Price Index. Covista believes that such premises are leased on terms similar to an arm's length transaction.

In July 2001, Covista entered into an approximately $1,245,000 sale and leaseback transaction whereby Covista sold and leased back new and exiting telecommunications switching equipment purchased earlier in the current fiscal year. The equipment was sold for the original purchase price. The term is three years and Covista has an option to repurchase the equipment at fair market value at lease termination. The related lease is being accounted for as an operating lease.

In November 2001, Covista negotiated another sale and leaseback transaction for a second telecommunications switch for approximately $1,092,700. The lease contract is similar to the first transaction, with a term of three years with an option to repurchase the equipment at fair market value at lease termination. The second lease is also accounted for as an operating lease.

Future minimum annual rentals on these leases as of January 31, 2002 are as follows:

Year ending January 31,	
2003	$ 1,919,281
2004	1,213,050
2005	1,090,740
2006	426,640
2007	366,640
2008 and thereafter	1,504,391
	$6,520,742

Rental expense for the years ended January 31, 2002, 2001 and 2000 was approximately $2,355,000, $1,500,000, and $1,377,000, respectively.

8. EMPLOYEE BENEFIT PLANS

The Company has established a savings incentive plan for substantially all employees of the Company which is qualified under section 401(k) of the Internal Revenue Code. The savings plan provides for contributions to an independent trustee by both the Company and its participating employees. Under the plan, employees may contribute up to 15% of their pretax base pay. The Company matches 50% of the first 6% of participant contributions. Participants vest immediately in their own contributions and over a period of six years for the Company's contributions. Company contributions were approximately $162,000, $95,000, and $125,000, for the years ended January 31, 2002, 2001 and 2000, respectively.

9. STOCK OPTION PLANS

The Company has four stock option plans authorizing the granting of either Incentive Stock Options or Nonqualified Stock Options. The 1987 Stock Option Plan (the "1987 Plan") provided for the issuance of an aggregate of not more than 1,329,800 shares of the Company's Common Stock. The 1996 Stock Option Plan (the "1996 Plan") provides for the issuance of an aggregate of not more than 600,000 shares of the Company's Common Stock. The 1999 Equity Incentive Plan (the "1999 Plan") provides for the issuance of an aggregate of not more than 750,000 shares of the Company's Common Stock. The 2001 Equity Incentive Plan (the "2001 Plan") provides for the issuance of an aggregate of not more than 900,000 shares of the Company's Common Stock.

Stock Options granted pursuant to the Plans must have an exercise price equal to at least 50% of the fair market value of the Company's Common Stock at the time the option is granted. Incentive Stock Options may be granted only to employees. Nonqualified Stock Options may be granted to employees as well as directors, independent contractors and agents, as determined by the Board of Directors. All options available to be granted under the 1987 Plan were granted prior to September 1, 1997. All options available to be granted under the 1996 Plan, totaling 49,350 at January 31, 2002, must be granted by October 10, 2006. All options available to be granted under the 1999 Plan, totaling 242,667 at January 31, 2002, must be granted by February 23, 2009. All options available to be granted under the 2001 Plan, totaling 47,400 at January 31, 2002, must be granted by February 8, 2012.

At January 31, 2002, shares under the 2001 Plan had not been registered by the Company. The options currently outstanding have terms that expire between five and ten years from the date of grant and vest over a period of one to four years from the date of the grant.

On February 23, 2000, the Board of Directors passed a resolution allowing the Company to reprice all outstanding options granted under the 1996 Plan and the 1999 Plan. All outstanding options, approximately 243,000 net of cancellations, which were originally granted at prices ranging from $14.63 to $21.50 per share were repriced to $14.25 per share. Accordingly, the option prices per share and weighted average exercise price in the following 1996 Plan and 1999 Plan tables have been restated to reflect the $14.25 exercise price. All other terms and conditions, including vesting periods remain unchanged. The repriced options are subject to variable plan accounting and as a result there was no income statement effect of these options in the year ended January 31, 2002 and January 31, 2001 due to the decrease in the Company's stock price below the new exercise price.

On February 1, 2001, 35 employees were given the opportunity to cancel 248,200 options to purchase Common Shares. All 35 agreed to cancel the options. On August 2, 2001 248,200 options to purchase Common Shares were issued at the then closing market price of $5.65 per share.

Information regarding options under the 1987 Plan is as follows:

	Option Price Per Share	Outstanding	Exercisable	Weighted Average Exercise Price
January 31, 1999 balance	$0.51 - $4.81	310,000	310,000	$ 1.77
Exercised	$0.51 - $4.81	(211,000)	(211,000)	$ 2.25
January 31, 2000 balance	$0.51 - $1.00	99,000	99,000	$ 0.75
Exercised	$ 0.51	(16,500)	(16,500)	$ 0.51
January 31, 2001 balance	$0.51 - $1.00	82,500	82,500	$ 0.80
Exercised	$ 1.00	(16,500)	(16,500)	$ 1.00
Cancelled	$0.51 - $1.00	(66,000)	(66,000)	$ 0.80
January 31, 2002 balance	-	-	-	$ -

Information regarding options under the 1996 Plan is as follows:

	Option Price Per Share	Outstanding	Exercisable	Weighted Average Exercise Price
January 31, 1999 balance	$ 7.25 - $14.25	342,100	175,000	$ 10.99
Granted	$14.25	261,500	-	$ 14.25
Became Exercisable	$14.25	-	87,683	$ 14.25
Exercised	$ 7.25 - $14.25	(165,500)	(165,500)	$ 7.90
Cancelled	$ 7.25 - $14.25	(94,100)	-	$ 14.25
January 31, 2000 balance	$10.00 - $14.25	344,000	97,183	$ 14.06
Became Exercisable	$14.25	-	18,184	$ 14.25
Cancelled	$14.25	(259,600)	(64,000)	$ 14.25
January 31, 2001 balance	$10.00 - $14.25	84,400	51,367	$ 13.50
Granted	$2.00	523,000	-	$ 2.00
Became Exercisable	$2.00	-	101,000	$ 2.00
Cancelled	$ 2.00- $14.25	(259,400)	(51,367)	$ 5.74
Exercised	$2.00	(5,000)	(5,000)	$ 2.00
January 31, 2002 balance	$2.00	343,000	96,000	$ 2.00

Information regarding options under the 1999 Plan is as follows:

	Option Price Per Share	Outstanding	Exercisable	Weighted Average Exercise Price
January 31, 1999 balance	$ -	-	-	$ -
Granted	$ 14.25	684,500	-	$ 14.25
Became Exercisable	$ 14.25	-	48,000	$ 14.25
Cancelled	$ 14.25	(163,500)	-	$ 14.25
January 31, 2000 balance	$ 14.25	521,000	48,000	$ 14.25
Granted	$ 14.25	365,100	-	$ 14.25
Became Exercisable	$ 14.25	-	92,375	$ 14.25
Cancelled	$ 14.25	(372,600)	(48,000)	$ 14.25
January 31, 2001 balance	$ 14.25	513,500	92,375	$ 14.25
Granted	$ 2.00 - $7.00	558,400	-	$ 3.76
Became Exercisable	$ 2.00 - $3.50	-	8,433	$ 2.02
Cancelled	$ 3.00 - $14.25	(573,000)	(89,175)	$ 12.93
Exercised	$ 2.00 - $3.50	(8,433)	(8,433)	$ 2.02

Information regarding options under the 2001 Plan is as follows:

	Option Price Per Share	Outstanding	Exercisable	Weighted Average Exercise
January 31, 2001 balance	$ -	-	-	$ -
Granted	$ 2.00 - $6.71	855,500	-	$ 4.02
Became Exercisable	$ 2.00 -$5.65	-	213,899	$ 4.26
Cancelled	$ 5.65	(2,900)	-	$ 5.65
January 31, 2002 balance	$ 2.00 - $6.71	852,600	213,899	$ 4.02

The following table summarizes information about options outstanding as of January 31, 2002 under the 1987, 1996, 1999 and 2001 Plans:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of Shares outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares outstanding	Weighted Average Exercise Price
$2.00 - $7.00	1,672,867	5.23	$ 3.52	309,899	$ 3.56
$ 7.01 - $14.25	13,200	3.07	$14.25	3,200	$ 14.25

The Company has adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for the Company's plans been determined based on the fair value at the grant date for awards in the fiscal years ended January 31, 2002, 2001 and 2000, consistent with the provisions of SFAS No. 123, the Company's net loss and basic and diluted loss per share would have been $10,837,464, $1.06 and $1.06 for 2002; $8,886,465, $1.23 and $1.23 for 2001; $10,068,538, $1.43 and $1.43 for 2000.

The fair value of the option grants is estimated based on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2002, 2001, and 2000: dividend yield of 0.00% for the three years; expected volatility of 165.18%, 62.23% and 46.11%, respectively; risk-free interest rate of 6.47%, 7.85% and 6.02% respectively; and expected lives of 3 to 5 years for each of the three years.

10. STOCK GRANTS

The Company, at the discretion of the Board of Directors, has awarded from time to time to management personnel shares of its Common Stock at par value. These shares vest over a period of three to five years. The Company awarded 0 shares, 0 shares, and 1,000 shares of its Common Stock and recorded compensation expense of $ 12,011, $266,565, and $204,015 for the years ended January 31, 2002, 2001 and 2000, respectively.

Shares cancelled by the Company due to termination or resignation of the recipients for the years ended January 31, 2002, 2001 and 2000 totaled 0, 4,000 and 35,383 respectively, which amounts have been

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

11. LONG-TERM DEBT

On July 2, 2001 , Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $4,000,000. The loan matures on February 1, 2003 together with accumulated interest at a rate of 8% per annum. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. This prepaid network capacity is included in prepaid expenses (current portion of $400,000) and other assets (long term portion of $3,600,000, net of current year amortization of $233,000). The cost will be amortized to operations based upon the greater of capacity use or straight line over the term of the agreement. The unaffiliated party has recently filed for Chapter 11 reorganization; however at the time of this filing is continuing to perform under the agreement. Mr. Luken also advanced the Company, $400,000, the proceeds of which were used for construction of new facilities. The agreement calls for interest to be accrued at a rate of 8% per annum. The total balance of the liability is $4,400,000 plus accrued interest at January 31, 2002. (see Note 21b)

As of January 31, 2002, Covista owes a remaining balance of $381,405 loan payable to a New Jersey bank, all of which is classified as current. The interest rate on the term loan is 7.71% and is payable the scheduled monthly installments of $55,923. The term loan requires the Company to meet certain covenants. The tem loan is collateralized by certain of the Company's machinery and equipment. At January 31, 2002, the Company was not in compliance with these covenants.

12. OTHER COMPENSATION

On September 21, 1999, the Company entered into an agreement with Warren Feldman, Chairman of the Board of Directors and a shareholder of the Company. As part of this agreement, a lump sum in the amount of $900,000 was paid to Mr. Feldman in settlement of his employment agreement. The Company paid $650,000 and Mr. Walt Anderson, a major shareholder, paid $250,000. Mr. Feldman's Employment Agreement would have been in effect until December 31, 2001. The Company expensed the $900,000 with the $250,000 being accounted for as a capital contribution.

Simultaneously, Revision LLC and Mr. Walt Anderson ("Revision/Anderson") and the Company entered into put option agreements with Warren Feldman, Sol Feldman ("the Feldmans") and Leon Genet, ("Genet") a director of the Company. These Put Option agreements allowed the Feldmans and Genet the right to sell their shares of the Company to Revision/Anderson at a price of $16.00 per share and obligate Revision/Anderson to purchase the shares during an exercise period beginning on December 11, 1999 and ending on February 10, 2000. Revision/Anderson purchased the shares under the put option agreements prior to the deadline, with the exception of 100,778 shares still held by the Feldman's. The Company had no obligation to purchase any shares from the Feldmans or Genet. The closing market price of the Company's shares on September 21, 1999, the date of the agreements, was $12.25, and the total number of shares covered by the agreements was 1,208,137. Using a binomial valuation model with an interest rate of 5% and a volatility rate of 50%, the fair value of the Put Option agreements was determined to be approximately $4.03 per share or $4,870,554. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 83, the Company accounted for this non-cash transaction as a charge to expense and a credit to paid-in capital during the quarter ended October 31, 1999.

13. RESTRUCTURING

During the fourth quarter of fiscal 1999, the Company recorded a restructuring charge of approximately $2,368,000 related to the adoption by the Company of a formal plan for restructuring its focus of operations. The restructuring was adopted in an effort to concentrate the Company's efforts on the Northeastern United States market. Elements of the Company's restructuring plan included eliminating the sales offices in Florida, Atlanta, Georgia, Washington D.C. and the United Kingdom as well as the Miami switch.

For the fiscal year ended January 31, 2000, amounts aggregating approximately $1,797,000 applied against the accrual consisted of approximately $1,280,000 for the write down of the Miami switch, approximately $99,000 for the line installation costs, approximately $51,000 for payments made on the Fort Lauderdale lease, approximately $327,000 for severance payments and approximately $40,000 for payments made to shut down the U.K. operation. Additionally, an aggregate of approximately $319,000 which is reflected as a credit through the restructuring charge line in the fiscal 2000 consolidated financial statements consisted of approximately $97,000 reduction in the severence accrual, approximately $20,000 for the reduction of the fringe benefit accrual and $202,000 reduction in the accrual on the Fort Lauderdale lease, due to revisions in the lease. The salvageable components of the switch were relocated to the Company's New York City switch in the third quarter of fiscal 2000. After restructuring charges incurred, the balance in the reserve at January 31, 2000, of approximately $12,000, consisted of the settlement of the lease in Fort Lauderdale, Florida.

In the fiscal year ended January 31, 2001, the Company settled, for approximately $12,000, the balance on the lease in Fort Lauderdale, Florida, which was charged against the restructuring reserve.

14. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal and administrative actions arising in the normal course of business. While the resolution of any such actions may have an impact on the financial results for the period in which it is resolved, management believes that the ultimate disposition of these matters will not have a material adverse effect upon its consolidated results of operations, cash flows or financial position.

15. LOSS PER SHARE

Basic loss per share was computed by dividing net loss by the weighted average number of shares of Common Stock outstanding during each year. Diluted loss per share was computed on the assumption that all stock options converted or exercised during each year or outstanding at the end of each year were converted at the beginning of each year or at the date of issuance or grant, if dilutive.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEARS ENDED JANUARY 31, 2002, 2001 AND 2000

conciliation of the loss and common shares included in the computation of basic loss per common share and diluted loss per common share for the
ended January 31, 2002, 2001 and 2000 is as follows:

	2002			2001			2000		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Loss (Numerator)	Shares (Denominator)	Per Share Amount
s	$(11,969,588)			$(8,629,304)			$(9,414,202)		
ss are:	(11,969,588)	10,203,610	$(1.17)	(8,629,304)	7,324,085	$(1.18)	(9,414,202)	7,068,875	$(1.33)
f dilutive ies: options									
loss per share	$(11,969,588)	10,203,610	$(1.17)	$(8,629,304)	7,324,085	$(1.18)	$(9,414,202)	7,068,875	$(1.33)

nding stock options to purchase shares of Common Stock were not included in the computation of diluted loss per share for the fiscal years ended
y 31, 2002, 2001 and 2000 because to do so would have been antidilutive.

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Amounts in thousands except per share data.

	April 30, 1999	July 31, 1999	October 31, 1999	January 31, 2000
Net sales	$ 33,530	$ 36,617	$36,988	$32,625
Operating income (loss)	519	590	(5,954)	(1,834)
Net earnings (loss)	296	339	(5,539)	(4,510)
Basic earnings (loss) per common share	0.04	0.05	(0.77)	(0.63)
Diluted earnings (loss) per common share	0.03	0.05	(0.77)	(0.63)
	April 30, 2000	July 31, 2000	October 31, 2000	January 31, 2001
Net sales	$ 31,792	$34,108	$ 33,903	$ 33,427
Operating income (loss)	(1,606)	(1,405)	(2,417)	(3,306)
Net earnings (loss)	(1,514)	(1,366)	(2,403)	(3,346)
Basic earnings (loss) per common share	(0.21)	(0.19)	(0.33)	(0.45)
Diluted earnings (loss) per common share	(0.21)	(0.19)	(0.33)	(0.45)
	April 30, 2001	July 31, 2001	October 31, 2001	January 31, 2002
Net sales	$ 29,444	$ 28,892	$ 20,467	$ 16,510
Operating income (loss)	(4,863)	42	(1,790)	(5,551)
Net earnings (loss)	(4,592)	86	(1,859)	(5,605)
Basic earnings (loss) per common share	(0.56)	.01	(0.17)	(0.52)
Diluted earnings (loss) per common share	(0.56)	.01	(0.17)	(0.52)

17. EMPLOYEE STOCK OWNERSHIP PLAN

On September 1, 1998, the Company established the Covista Communications, Inc. Employee Stock Ownership Plan (the "ESOP Plan"). Concurrently with the establishment of the nonleveraged ESOP Plan, the Company contributed 600,000 shares of its Common Stock to the ESOP Plan. The Common shares were recorded at fair value at the date contributed to the ESOP, totaling approximately $12.2 million, with an offset to Unearned ESOP Shares in the Statement of Shareholders' Equity. The ESOP Plan was to be administered through a trust by a trustee designated by the Board of Directors

In February 1999, the Company's Board of Directors authorized the termination of the ESOP Plan. The IRS gave its approval to terminate the ESOP, and the Company officially terminated this plan during 2002, and the entire 600,000 shares of Common Stock were returned to authorized but unissued shares of Common Stock.

18. ACCESS CHARGE SETTLEMENT

In the second quarter of fiscal 2001, the Company received a cash payment of $1,264,483 from certain Bell Companies in settlement of a class action suit, to which the Company was a party, filed in 1992 relating to alleged overcharges by those companies. The settlement concluded the class action with the Bell Companies. The Company's portion of the settlement was not determined until the second quarter ended July 31, 2000. The cash payment was recorded as a separate line item as a reduction of costs and expenses in the quarter ended July 31, 2000.

19. RELATED PARTY TRANSACTIONS

A director of the Company serves on the Board of Directors of Capsule Communications, Inc. ("Capsule") (see Note 21). Also the Chairman of the Company is the majority shareholder of Capsule. The Company purchases and sells services to Capsule. Sales to Capsule in the years ended January 31, 2002, 2001 and 2000 were approximately $615,000, $532,000 and $681,000, respectively. Purchases from Capsule in the years ended January 31, 2002, 2001 and 2000 were approximately $660,000, $544,000 and $291,000 respectively. All transactions were based on competitive terms obtained in arm's length transactions.

On February 1, 2001, the Board of Directors of the Company representing a majority ownership of the Company, subject to perfunctory shareholder's approval which was obtained on March 29, 2001, authorized the sale of a total of 3,500,000 shares of Common Stock to the following three persons (the "Purchasers") in the amounts indicated: Kevin Alward, 1,000,000 shares; A. John Leach, 500,000 shares; and Henry G. Luken, III, 2,000,000 shares. The purchase price for the Common Stock to be issued to Messrs. Alward, Leach and Luken is $2.00 per share, based on the fair market value of shares at February 1, 2001. The stock sale was consummated in April 2001 with the issuance of 3,150,000 shares of common stock. The Board of Directors authorized a decrease of 350,000 shares to be purchased by Mr. Leach.

On February 1, 2001, the Board of Directors of the Company authorized the acquisition of Blink Data Corporation, a telecommunications company, of which Kevin Alward was a principal shareholder, officer and director, for 300,000 shares of the Company's Common Stock valued at the fair market value at March 29, 2001 for total consideration of $900,000. The transaction was completed on March 29, 2001.

On July 24, 2001 and August 9, 2001, the Company issued notes receivable to Capsule for a total principal of $200,000 and $300,000, respectively with interest payable at 8 ¾% to be paid no later than one year from each note issuance.

Jay J. Miller, a Director of Covista, has provided various legal services for Covista during Fiscal 2002. In Fiscal 2002, Covista paid $144,574 to Mr., Miller for services rendered and accrued for in Fiscal 2002. As of January 31, 2002, Covista owed Mr. Miller $179,316. Covista believes that Mr. Miller's fees were reasonable for the services performed and were no less favorable to Covista than could have been obtained from an unrelated third party.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Registrant, LPJ, Inc. During Fiscal 2002, LPJ, Inc. was paid commissions of $93,066. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

20. EMPLOYEE RECEIVABLES

Included in prepaid expenses and other current assets is a note receivable totaling $262,500 evidencing a loan to a former employee of the Company. The note bears interest at 11.5% per annum, and is payable in monthly installments with the last payment due on January 1, 2004. The Company is in the process of negotiating collection of the note.

An additional approximate $179,000 of employee receivables is included in prepaid expenses and other current assets. This remaining balance represents loans and payroll advances to various employees.

21. SUBSEQUENT EVENTS

a. On February 8, 2002, the Company acquired Capsule Communications, Inc. ("Capsule") for 1,724,311 shares of Common Stock. Capsule is a telecommunications carrier providing local and long-distance telephone communications services to small and medium size business customers and residential customers generally located in the Mid-Atlantic region and in California. Capsule is a related party of which both Henry G. Luken III, the Chairman and shareholder of the Company, and Walter Anderson, a director and shareholder of the Company, each of whom were the two major shareholders' in Capsule. The terms of the acquisition were that all shareholders with the exception of Henry Luken received 0.0917 shares of Covista Common Stock for each share of Capsule Common Stock, and Mr. Luken received 0.0688 shares of Covista Common Stock for each share of Capsule Common Stock. The total value of the acquisition was approximately $11,000,000.

b. On February 20, 2002 the Board of Directors approved the private sale of additional Common Stock of up to $12,500,000. The investment would include a cash infusion of $4,800,000 for debt or Common Stock, contribution of $3,300,000 of fixed assets for debt or Common Stock and the conversion of all existing long-term debt to Common Stock at $5.00 per share. The commitment for funding for the investment is anticipated to come primarily from the current Chairman of Covista's Board and is subject to shareholder's approval at the next annual or scheduled meeting of stockholders. As of May 14, 2002, $2,600,000 of cash was received from the Chairman of Covista's Board in exchange for debt. Finally, the Company is planning to obtain a line of credit from a bank. If such line of credit is not obtained, the Chairman of the Board has committed to loaning $2 million to the Company through at least the second quarter of Fiscal 2004.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
Schedule II – Valuation and Qualifying Accounts (Consolidated)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged (Credited) to Cost and Expenses	Charged to Other Accounts-Describe	Deductions-Describe	Balance at End of Period
YEAR ENDED JANUARY 31, 2002					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	$ 4,075,223	$5,382,384	$ -	$4,470,477(A)	$ 4,987,1
Valuation reserve on deferred tax asset	$ 7,406,540	$ 4,618,990	$ -	$ -	$ 12,025,5
YEAR ENDED JANUARY 31, 2001					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	$ 1,827,260	$ 2,346,761	$ -	$ 98,798	$ 4,075,2
Valuation reserve on deferred tax asset	$ 3,702,881	$ 3,703,659	$ -	$ -	$ 7,406,5
Allowances not deducted:					
Restructuring reserve	$ 11,995	$ -	$ -	$ 11,995	$
YEAR ENDED JANUARY 31, 2000					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectible accounts	$ 1,230,483	$ 1,074,916	$ -	$ 478,139	$ 1,827,
Valuation reserve on deferred tax asset	$ -	$ 3,702,881	$ -	$ -	$ 3,702,
Allowances not deducted:					
Restructuring reserve	$ 2,128,000	$ (318,879)	$ -	$ 1,797,126	$ 11,

(A) Represents write-off of accounts receivable against the allowance in Fiscal Year 2002.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: October 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from______to

Commission File Number 0-2180

COVISTA COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

New Jersey	**22-1656895**
(State or other Jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)

4803 Highway 58 North, Chattanooga, TN 37416
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (423) 648-9700

150 Clove Road, 8th Floor, Little Falls, NJ 07424
(Former address of principal executive offices) (Zip Code)

Indicate by check mark whether Covista (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Covista was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at December 16, 2002
Common Share, $.05 par value	12,698,752 shares

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

THIRD QUARTER REPORT ON FORM 10-Q

INDEX

ITEM 1 - FINANCIAL STATEMENTS
COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Nine Months Ended October 31,		Three Months Ended October 31,	
	2002	2001	2002	2001
NET SALES	$ 77,002,274	$ 78,803,039	$ 26,773,184	$ 20,466,685
Costs and Expenses				
Cost of sales	54,341,941	64,423,267	18,185,528	15,335,763
Selling, general and administrative	30,717,399	20,990,705	9,846,672	6,921,048
Total costs and expenses	85,059,340	85,413,972	28,032,199	22,256,811
OPERATING LOSS	(8,057,066)	(6,610,933)	(1,259,015)	(1,790,126)
Other Income (Expense)				
Interest income	44,576	94,392	247	18,752
Other income	26,472	305,267		33,680
Interest expense	(388,457)	(154,783)	(133,144)	(121,256)
Total other income (expense)	(317,409)	244,876	(132,897)	(68,824)
Loss before benefit from income taxes	(8,374,475)	(6,366,057)	(1,391,912)	(1,858,950)
Benefit from income taxes	511,220	-	-	-
NET LOSS	(7,863,255)	(6,366,057)	(1,391,912)	(1,858,950)
COMPREHENSIVE LOSS	$ (7,863,255)	$ (6,366,057)	$ (1,391,912)	$(1,858,950)
BASIC LOSS PER COMMON SHARE	$ (0.62)	$ (0.64)	$ (0.11)	$ (0.17)
DILUTED LOSS PER COMMON SHARE	$ (0.62)	$ (0.64)	$ (0.11)	$ (0.17)
DIVIDENDS PER SHARE	NONE	NONE	NONE	NONE

See notes to condensed consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2002 (Unaudited)	January 31, 2002 (Note)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,381,369	$ 1,379,038
Investments available for sale	-	439,773
Notes receivable	-	500,000
Accounts receivable, net	16,937,991	10,252,837
Prepaid expenses and other current assets	534,164	1,373,780
TOTAL CURRENT ASSETS	20,853,524	13,945,428
PROPERTY AND EQUIPMENT, NET	14,557,592	12,489,626
OTHER ASSETS:		
Deferred line installation costs, net	579,519	174,785
Intangible assets, net	2,441,532	-
Goodwill, net	8,307,850	-
Other assets	3,962,091	4,646,952
	15,290,992	4,821,737
	$ 50,702,109	$ 31,256,791

Note: The condensed consolidated balance sheet at January 31, 2002 has been derived from the audited consolidated financial statements at that date.

See notes to condensed consolidated financial statements

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2002 (Unaudited)	January 31, 2002 (Note)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 1,659,583	$ 381,405
Accounts payable	26,023,878	19,465,274
Other current and accrued liabilities	6,544,898	4,434,795
Salaries and wages payable	409,441	991,012
TOTAL CURRENT LIABILITIES	34,637,801	25,272,486
Other Long Term Liabilities	2,578	15,466
Long-Term Note Payable - Bank	2,377,029	-
Long-Term Note Payable – Shareholder	7,000,000	4,400,000
Total Notes Payable	9.377.029	4,400,000
SHAREHOLDERS' EQUITY		
Common stock	711,443	619,288
Additional paid-in-capital	38,521,038	25,650,098
Accumulated deficit	(31,102,339)	(23,255,107)
	8,130,142	3,014,279
Treasury stock	(1,445,440)	(1,445,440)
Total Shareholders' Equity	6,684,702	1,568,839
	$50,702,109	$ 31,256,791

Note: The condensed consolidated balance sheet at January 31, 2002 has been derived from the audited consolidated financial statements at that date.

See notes to condensed consolidated financial statements.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended October 31, 2002	2001
OPERATING ACTIVITIES:		
Net loss	$ (7,863,255)	$ (6,366,057)
Adjustment for non-cash charges	6,918,842	5,691,632
Gain on sale of marketable securities	-	(262,234)
Changes in assets and liabilities, net of effect of Acquisitions	(441,463)	(2,162,645)
Net cash used in operating activities	(1,385,876)	(3,099,304)
INVESTING ACTIVITIES:		
Cash acquired in purchase of business	1,179,165	90,402
Proceeds on sale of marketable securities	439,773	1,141,302
Purchases of marketable securities	-	(608,369)
Purchase of prepaid network capacity	-	(4,000,000)
Purchase of property and equipment	(3,028,664)	(4,182,146)
Proceeds from sale and leaseback transaction	-	1,245,339
Additions to deferred line installation costs	(404,734)	(32,803)
Net cash used in investing activities	(1,814,460)	(6,346,275)
FINANCING ACTIVITIES:		
Sale of common stock	315,963	6,326,666
Proceeds of loan from shareholder	2,600,000	4,000,000
Proceeds from bank borrowings	3,775,000	-
Repayments of bank borrowings	(1,488,296)	(456,972)
Net cash provided by financing activities	5,202,667	9,869,694
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,002,331	424,115
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,379,038	2,691,889
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,381,369	$ 3,116,004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid (received) during the period for:		
Interest	$ 346,679	$ 46,339
Income taxes	$ (511,220)	$ (16,828)
Business Acquired		
Fair Value of Assets excluding cash	$ 21,849,458	(2,162,145)
Less Liability Assumed	(10,056,503)	
Less: Stock Consideration for business acquired	(12,972,127)	
Cash acquired	1,179,172	90,402

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Covista Communications, Inc. (formerly Total-Tel USA Communications, Inc.) and Subsidiaries (Covista) for the fiscal year ended January 31, 2002. In the opinion of Management, all adjustments (consisting of normal recurring accruals only) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended October 31, 2002 are not necessarily indicative of the results that may be expected for the year ending January 31, 2003.

NOTE B -NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective January 1, 2002. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which is effective for Covista's fiscal years beginning February 1, 2003. SFAS 143 requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and a corresponding increase in the carrying value of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, it is either settled for its recorded amount or a gain or loss upon settlement is recorded. Covista is currently assessing, but has does not expect the impact of SFAS 143 to be material to its financial position and results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets", which is effective for all fiscal years beginning after December 15, 2001. SFAS 144 replaces the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 requires that long-lived assets to be measured at the lower of the carrying amount or fair value, less cost to sell, whether included in continuing operations or in discontinued operations. Covista is currently assessing, but does not expect the impact of SFAS 144 to be material to its financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This statement eliminates the automatic classification of gain or loss on extinguishment of debt as an extraordinary item of income and requires that such gain or loss be evaluated for extraordinary classification under the criteria of Accounting Principles Board No. 30 "Reporting Results of Operations". This statement also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various other technical corrections to existing pronouncements. This statement will be effective for Covista for the year ending January 31, 2003. The adoption of this statement is not expected to have a material effect on our results of operations or financial position.

In July 2002, the Financial Accounting Standards Board issued SFAS No.146,"Accounting for Costs Associated with Exit or Disposal Activities." SFAS No.146 will supersede Emerging Issues Task Force Issue No.94-3,"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No.146 requires that costs associated with an exit or disposal plan be recognized when incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No.146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

NOTE C – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted loss per common share:

	Nine-Months Ended		Three-Months Ended	
	October 31, 2002	October 31, 2001	October 31, 2002	October 31, 2001
Numerator:				
Loss available to Common Shareholders used in basic and diluted loss per Common Share	$ (7,863,255)	$ (6,366,057)	$ (1,391,912)	$(1,858,950)
Denominator:				
Weighted-average number of Common Shares used in basic loss per Common Share (1)	12,612,053	9,990,562	12,697,673	10,820,365
Effect of diluted securities:				
Common share options	-	-	-	-
Weighted-average number of Common Shares and diluted potential Common Shares used in diluted loss per Common Share	12,612,053	9,990,562	12,697,673	10,820,365
Basic and diluted loss per Common Share	$ (0.62)	$ (0.64)	$ (0.11)	$ (0.17)

(1) Common Shares subject to options are not included in the calculation of diluted loss per Common Share for the nine month periods ended October 31, 2002 and 2001, and the three-month period ended October 31, 2002, as doing so would be antidilutive due to the net loss per Common Share.

ACCEPTED FOR PROCESSING - 2019 October 15 10:32 AM - SCPSC - 2003-200-C - Page 112 of 130

NOTE D -- SEGMENT REPORTING

Covista sells telecommunications services to three distinct segments: a retail segment consisting primarily of small to medium sized businesses principally within the United States, a wholesale segment with sales to other telecommunications carriers throughout the world, and a segment that generates sales through direct mailing campaigns (KISSLD) which started in the beginning of fiscal year 2003 for residential customers in network supported areas on the East Coast.

In addition to direct costs, each segment is allocated a portion of the Covista's switch and operating expenses. The allocation of expense is based upon the minutes of use flowing through the Covista's switch network. There are no intersegment sales. Assets are held at the consolidated level and are not allocable to the operating segments. Covista evaluates performance on operating earnings of the three business segments.

Summarized financial information concerning Covista's reportable segments is shown in the following table:

	Retail	Wholesale	KISS LD	Total
Nine Months Ended October 31, 2002				
Net Sales	$ 60,327,000	$ 11,389,000	$ 5,286,000	$ 77,002,000
Gross margin	19,512,000	1,139,000	2,009,000	22,660,000
Operating loss	(6,365,000)	(1,128,000)	(564,000)	(8,057,000)
Nine-Months Ended October 31, 2001				
Net Sales	$ 36,717,000	$ 42,086,000	N/A	$ 78,803,000
Gross margin	13,062,000	1,318,000	N/A	14,380,000
Operating loss	(4,457,000)	(2,153,000)	N/A	(6,611,000)

	Retail	Wholesale	KISS LD	Total
Three Months Ended October 31, 2002				
Net Sales	$ 20,788,000	$ 3,099,000	$ 2,886,000	$ 26,773,000
Gross margin	7,181,000	310,000	1,097,000	8,588,000
Operating loss	(1,053,000)	(45,000)	(161,000)	(1,259,000)
Three Months Ended October 31, 2001				
Net Sales	$ 11,996,000	$ 8,471,000	N/A	$ 20,467,000
Gross margin	4,284,000	847,000	N/A	5,131,000
Operating loss	(1,495,000)	(295,000)	N/A	(1,790,000)

NOTE E – INCOME TAXES

For the fiscal year ended January 31, 2002, Covista established a valuation allowance against its net deferred tax asset due to the uncertainty of realizing certain tax credits and loss carryforwards. In the quarter ended October 31, 2002, Covista continued this accounting treatment and recorded a full valuation allowance against the net tax benefit arising from the quarter's net operating loss. The result is that the net deferred tax asset of approximately $14,278,000 is fully offset by the valuation allowance and, as such, does not appear on the balance sheet. It will be reflected at net recoverable value when the net deferred tax asset can be utilized in future periods.

During the second quarter of the fiscal year 2003, Covista received a tax refund of $511,220; which reflected a change in IRS regulations regarding net operating loss carrybacks.

NOTE F – ACQUISITION OF CAPSULE COMMUNICATIONS

On February 8, 2002, Covista completed the merger (the "Merger") of its wholly owned subsidiary CCI Acquisitions, Inc. ("CCI") with and into Capsule Communications, Inc. ("Capsule"), pursuant to the Agreement and Plan of Reorganization dated as of July 17, 2001 among Covista, CCI and Capsule (the "Merger Agreement"). As a result of the Merger, Capsule became a wholly owned subsidiary of Covista. Covista has accounted for the combination with Capsule as a purchase business combination under SFAS 141("Business Combination"). Capsule is a switch-based interexchange carrier providing long distance telephone communications services primarily to small and medium-size business customers as well as residential accounts.

The results of Capsule's operations have been included in Covista's statement of operations since the Merger Date. The total purchase price was approximately $12.7 million and consisted of approximately 1.7 million shares of Covista's Common Stock, valued at approximately $11.6 million determined based on the average closing market price of Covista's Common Stock at the time of acquisition, options assumed from Capsule for the purchase of 286,975 shares of Common Stock valued at approximately $1.1 million using the Black-Scholes Valuation Model, using an exercise price of $3.49 to $20.10, expected lives of 0.5 to 2 years, 156% volatility, 2.69% discount rate, and Covistas' stock price of $6.71. In addition, Covista incurred approximately $0.3 million in acquisition expenses.

The following table summarizes the estimate of fair value of the assets acquired and liabilities assumed at the Merger Date.

Cash	$ 1,179,172
Current assets	5,717,428
Property and equipment	3,544,981
Other assets	89,199
Intangible assets	4,190,000
Goodwill	8,307,850
Total assets acquired	23,028,630
Current liabilities	(10,056,503)
Total purchase price	$(12,972,127)

The Intangible assets acquired from Capsule were identified as its business customer relationships valued at $1,288,000, its residential customer relationships valued at $376,000, and its agent relationships valued at $2,526,000. These intangibles are being amortized over periods of 10 months to four years. The customer and agent relationships are amortized using double-declining method.

The unaudited pro forma information below represents the consolidated results of operations as if the merger with Capsule had occurred as of February 1, 2001 and 2002. The unaudited pro forma information has been included for comparative purposes and is not indicative of the results of operations of the consolidated Company had the merger occurred as of February 1, 2001, nor is it necessarily indicative of future results.

	Nine Months Ended		Three Months Ended	
	October 31,2002	October 31,2001	October 31, 2002	October 31, 2001
Total Revenue	$ 77,815,223	$ 107,019,236	$ 26,773,184	$ 29,413,441
Loss attributable to Common stockholders	(7,770,611)	(7,388,496)	(1,391,912)	(2,476,381)
Basic net loss per common share	(0.62)	(0.74)	(0.11)	(0.23)

NOTE G – SHAREHOLDER LOAN

As of October 31, 2002, Covista received loans from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $7,000,000. These loans will be converted to equity upon shareholder approval which approval is expected to be sought at Covista's Annual Shareholder meeting planned to be held December 19, 2002. Covista currently has the necessary votes to approve the conversion.

NOTE H – NOTES PAYABLE

Covista has a revolving $2,000,000 credit facility with Wells Fargo Business Credit Corporation, renegotiated and amended on May 11, 2002, which expires on May 11, 2004. Interest on the revolving credit facility is currently calculated at the prime lending rate plus 2 3/4%, on a minimum loan balance of $750,000. The loan is collateralized by accounts receivable and fixed and intangible assets of Covista. As of October 31, 2002, Covista's outstanding balance on its credit facility was $548,076 leaving approximately $1,451,924 available based on collateral for future borrowing under the credit facility.

The loan agreement contains covenants and restrictions, which, among other things, require maintenance of certain subjective financial performance criteria and restrict encumbrance of assets, creation of indebtedness and places limitations on annual capital expenditures. Covista was not in compliance with several of its covenants in the Loan Agreement; however, Covista received verbal waivers related to such non-compliance relevant to the fiscal period ended October 31, 2002.

On June 17, 2002, Covista entered into a term loan agreement with a major Tennessee bank. Covista has received $3,775,000 payable monthly in 36 installments at a fixed interest rate of 4.595% for the first year and converting to 2% over LIBOR on June 17, 2003 and each year thereafter. This term loan is secured by certain of the Company's switching equipment and Certificates of Deposit provided by Covista's Chairman of the Board.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES
ITEM 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULT OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

Certain matters discussed in this Quarterly Report on Form 10-Q are "forward-looking statements" intended to qualify for the safe harbor from liability provided by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as Covista "believes", "anticipates", "expects", or words of similar import. Similarly, statements which describe Covista's future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which are described in close proximity to such statements and which could cause actual results to differ materially from those anticipated as of the date of this Report. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this Report and Covista undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances, except as required under applicable laws.

Results of Operations

Net sales were approximately $77,002,000 for the first nine months of the current fiscal year, a decrease of approximately $1,801,000 or 2.2% as compared to the approximately $78,803,000 recorded in the first nine months of the prior fiscal year. Net sales for the third quarter of the current fiscal year were approximately $26,773,000, an increase of approximately $6,306,000 or 30.8% as compared to the approximately $20,467,000 recorded in the third quarter of the prior fiscal year.

Wholesale revenue for the nine-month period was approximately $11,389,000, a decrease of approximately $30,696,620 or 73% from the nine month period ended October 31, 2001. For the quarter ended October 31, 2002, wholesale revenue was approximately $3,099,000, a decrease of approximately $5,372,000 or 63.4% over the comparative quarter in the last fiscal year. Wholesale minutes sold in the nine-month period ended October 31, 2002 were approximately 148,615,000 minutes, a decrease of approximately 234,143,000 minutes or 61.1% from the nine-month period ended October 31, 2001. Wholesale minutes sold in the quarter ended October 31, 2002 were approximately 32,578,000 minutes, a decrease of approximately 49,309,000 minutes or 60.2% from the third quarter of the prior fiscal year. For the nine-month period, the decline in revenue also reflected the competitive wholesale market place and the business failure of several wholesale customers, both trends that Covista believes will continue. Competitive pressures on sales price have resulted in a 34.7% decline in the average selling rate. Covista also has attempted to limit its exposure to the business failures experienced within the industry by tightening up credit limits on all wholesale accounts. Covista has strategically reduced the Wholesale segment of its business.

Retail revenues for the nine-month period were approximately $61,205,000, an increase of approximately $24,488,000 or 66.7% from the nine-month period ended October 31, 2001. For the quarter ended October 31, 2002, retail revenues were approximately $20,788,000, an approximately $8,792,000 or 73.2% increase over the comparative quarter in the last fiscal year. Retail minutes sold in the nine-month period ended October 31, 2002 were approximately 824,279,000 minutes, an increase of approximately 353,487,000 minutes or 75% over the nine-month period ended October 31, 2001. Retail minutes sold in the quarter ended October 31, 2002 were approximately 276,585,000 minutes, an increase of approximately 109,487,000 minutes, or 65.5% over the third quarter of the prior fiscal year. The increase in volume results primarily from the acquisition of Capsule Communications. However, the decrease in revenue per minute results from the extreme pricing pressures existing within the industry. Covista has experienced a rate decrease of 7.3% for the nine-month period ended October 31, 2002 and 3.1% for the three-month period ended October 31, 2002. The extreme pricing pressures experienced in the industry is a trend that the Company believes may continue.

KissLD revenues (a product sold to retail consumers) for the nine month period were approximately $5,286,000. KissLD is a new product offering for the current fiscal year and, therefore, does not have prior year comparatives. The total minutes sold for KissLD for the nine month period was approximately 103,472,000. For the three month period ended October 31, 2002, sales were approximately $2,886,000 for KissLD. KissLD minutes sold for the three month period ended July 31, 2002 were approximately 57,511,000.

Cost of sales for the current nine-month period was approximately $54,342,000, a decrease of approximately $10,081,000 or 15.6% from the nine- month period ended October 31, 2001. These changes were favorable in relation to the 2.2% decrease in sales for the nine-month period. The decrease in cost of sales was due primarily to a decrease of approximately 234,143,000 wholesale minutes equating to approximately $27,627,000. This savings was offset with the cost of the increase in retail volume of approximately $17,595,000.

Cost of sales for the three-month period ended October 31, 2002 was approximately $18,186,000, an increase of approximately $2,850,000 or 18.6% from the third quarter of the prior fiscal year. These changes were favorable in relation to the 30.8% increase in revenues in the third quarter. The increase in cost of sales was due primarily to the Capsule acquisition.

In the normal course of business, Covista files disputes with its service providers. Covista's accounting policy is to record the invoiced amount to cost of sales, which may include disputed amounts. When the dispute is resolved and the credit is received, the amount is credited to cost of sales. Open disputes included in cost of sales for the nine-month period and the three-month period ended October 31; 2002 are approximately $3,116,000 and $3,007,000, respectively.

Selling, general and administrative expense for the nine-month period increased to approximately $30,717,000, an increase of approximately $9,727,000, or 46.3% over the nine-month period ended October 31, 2001. For the quarter ended October 31, 2002, selling, general and administrative expense was approximately $9,847,000; an approximate $2,926,000 or 42.2% increase over the comparative quarter in the last fiscal year.

The increase in selling, general and administrative expenses of approximately $9,727,000 for the nine-month period was primarily due to an increase in commission expense of approximately $4,045,000 related to the added agent commissions of the Capsule agent program, an increase in salaries of approximately $2,906,000 related to the addition of Capsule salaries and expansion of the Tennessee call center staff; an increase in marketing expense of approximately $2,731,000 related to the KissLD marketing program, an increase in office expense of approximately $1,265,000 due to the addition of the Tennessee call center, the addition of Capsule general and administrative costs, and the one-time relocation costs of the corporate headquarters; and other miscellaneous selling, general and administrative expenses of $130,000. This was partially offset by a reduction in bad debt expense of approximately $1,349,000 for the same period.

For the three-month period ended October 31, 2002, the net increase in selling, general and administrative expenses of approximately $2,926,000 was comprised primarily of increase in commission expense of approximately $1,459,000 from the acquisition of the Capsule agent program, an increase in office expense of approximately $626,000 due to the one time relocation costs of the corporate headquarters to downtown Chattanooga, TN, and the addition of Capsule G & A, an increase in salaries of approximately $436,000 from the addition of Capsule salaries, an increase in benefits of approximately $231,000, an increase in equipment rental of approximately $195,000, an increase in franchise taxes of approximately $127,000, an increase in postage of approximately $88,000, increase in marketing expense of approximately $84,000, and other miscellaneous expenses of $8,000. This was partially offset by a reduction in bad debt expense of approximately $172,000 and a reduction in legal expense of $156,000.

For the reasons described above, the operating loss for the nine-month period ended October 31, 2002 was approximately $8,057,000, an increase of approximately $1,448,000 from the nine-month period ended October 31, 2001 The operating loss for the three-month period ended October 31, 2002 was approximately $1,259,000, an improvement of approximately $531,000 over the prior year's three-month period ended October 31, 2001.

Total other expense, net, for the current nine-month period was approximately $317,000 as compared to approximately $245,000 of total other income, net, recorded in the prior year nine-month period. The approximately $562,000 change for the nine-month period is primarily due to the reduction in sale of marketable securities of approximately $262,000, offset by an increase in interest expense of approximately $234,000 and a reduction in interest income of approximately $50,000. Total other expense, net, for the current fiscal quarter was approximately $133,000 as compared to approximately $69,000 of total other expense, net, recorded in the comparable period during the prior fiscal year. This change was due to an increase in interest expense.

Basic and diluted loss per Common Share was $0.62 per share for the current nine-month period ended October 31, 2002 as compared to $0.64 loss per share for the nine-months ended October 31, 2001. Basic and diluted loss per Common Share was $0.11 per share for the current three-month period ended October 31, 2002 as compared to $0.17 loss per Common Share for the three-months ended October 31, 2001.

Liquidity and Capital Resources

At October 31, 2002, Covista had a working capital deficit of approximately $13,784,000, an increase of deficit of approximately $2,457,000 as compared to January 31, 2002. The ratio of current assets to current liabilities at October 31, 2002 was 0.60:1, as compared to the ratio of 0.55:1 at January 31, 2002. The increase in the working capital deficit at October 31, 2002 was primarily attributable to an increase in accounts payable of approximately $6,559,000; a decrease in prepaid expenses and other current assets of approximately $840,000 and an increase in the current portion of long term debt of approximately $1,278,000. This was offset by an increase in accounts receivable of approximately $6,685,000; an increase in cash and cash equivalents of approximately $2,002,000; a decrease in investments available for sale of approximately $440,000; and a increase in accrued liabilities of approximately $2,110,000.

The increase in cash of approximately $2,002,000 was the result primarily of proceeds from the sale of Common Stock of $315,963; proceeds from a long-term loan received from a major shareholder of $2,600,000; the proceeds from the sale of marketable securities of approximately $439,773; the proceeds of a note payable of approximately $3,775,000l and cash acquired in the purchase of businesses of approximately $1,179,165. These increases were offset by cash used in operations of approximately $1,386,000; and payment of line installation costs of approximately $405,000, purchases of Property, Plant, and Equipment of approximately $3,029,000 and repayment of bank borrowings of approximately $1,488,000.

On February 20, 2002, Covista's Board of Directors approved the private sale of additional Common Stock of up to $12,500,000. The investment includes a conversion into common stock, of $6,800,000 of debt, contribution of $3,500,000 of fixed assets and $2,200,000 of cash to be received at the rate of $2:867 per share, which was the closing price for the Common Stock for 30 trading days prior to November 1, 2002, as authorized by the Board. The commitment for funding for the investment and the conversion of the indebtedness is from the current Chairman of Covista's Board or his designee's and is subject to shareholder's approval at the next Annual Meeting, to be held on December 19, 2002. Additionally, Covista has received a commitment from W. Thorpe McKenzie, a nominee for election as a director, to purchase an additional 500,000 shares at $2.867 per share for a total of approximately $1,434,000. Finally, the company is seeking a line of credit from a bank. If such line of credit were not obtained, the Chairman of the Board has committed to loaning $2 million to the Company through at least the second quarter of fiscal 2004.

Capital Expenditures

Capital expenditures for the nine-month period ended October 31, 2002 were approximately $3,196,207. These expenditures were financed principally from the proceeds of a long term loan received from a major shareholder. Planned spending for the balance of the fiscal year ending January 31, 2003, includes approximately $100,000 for additional switches and equipment to be installed as part of Covista's network expansion. These expenditures are planned to be financed primarily through vendor financing, sale and leaseback transactions, and additional lines of credit, which Covista intends to negotiate with its current lender or other sources. In addition, Covista may seek to sell privately, additional equity or debt securities. However, there can be no assurance that Covista shall be able to obtain such financing or, if available, the terms thereof shall be favorable.

Prepaid Network Capacity

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $4,000,000. This loan will be converted to equity upon shareholder approval which approval is expected to be sought at Covista's Annual Shareholder meeting to be held December 19, 2002. Covista currently has the necessary votes to approve the conversion. The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has filed for Chapter 11 reorganization; however, as of the date of this report, is continuing to perform under the agreement, and, therefore, management does not believe that this asset is impaired. However, management has been unable to determine if this carrier's bankruptcy will adversely affect the carrier's ability to fulfill its' obligation to Covista under the prepaid network capacity agreement.

As of October 31, 2002, Covista has used 63 million DS-0 channel miles of telecommunications network capacity against the 2.8 billion DS-0 total prepaid network capacity, of which $400,000 has been classified as a current asset and based on anticipated usage in the next 12 months. The remainder of the prepaid capacity amount of approximately $ 3,200,000 is included in other assets.

Accounts Receivable and Credit Risk

Accounts receivable subject Covista to the potential for credit risk with customers in the retail and wholesale segments. To reduce credit risk, Covista performs ongoing evaluations of its customer's financial condition and except in situations where the risk warrants it, Covista does not require collateral. Accounts receivable of approximately $16,938,000, net of the reserve for uncollectible accounts totaling approximately $6,833,000, represents approximately 33% of the total assets of Covista. No one customer accounts for greater than eight percent of the total revenues and receivables. In the wholesale segment, which contains Covista's largest customers, Covista has been able to ameliorate credit risk by using reciprocal arrangements with the customers, which are also Covista's suppliers, to offset outstanding receivables. Covista has historically maintained a better than three percent ratio of bad debts to revenues. For the nine-month period ended October 31, 2002, this ratio was 4%. Covista also measures net accounts receivable turnover (as measured in days sales outstanding). For the periods ended October 31, 2002 and 2001 days sales outstanding were 59.3 days and 58.5 days respectively.

Related Party Transactions

Jay J. Miller, a Director of Covista, has provided various legal services for Covista in Fiscal 2003. In the third quarter, Fiscal 2003, Covista accrued $13,960 to Mr. Miller for services rendered and accrued for in Fiscal 2003. As of October 31, 2002, Covista owed Mr. Miller $26,100.

Leon Genet, a Director of Covista, has provided agent services for Covista through his wholly-owned Registrant, LPJ, Inc. During the third quarter, Fiscal 2003, LPJ, Inc. was paid commissions of $24,155. The commissions paid to LPJ, Inc. were computed on the same basis as other independent agents retained by Covista.

Covista has entered into three lease agreements for office and switch space in Chattanooga, Tennessee, with Henry G. Luken III, Chairman of the Board and a principal shareholder of Covista. Each lease carries a term of five years. The leases provide for annual rent of $154,986 for fiscal year 2003; $258,290 for fiscal year 2004; $293,336 for fiscal year 2005 and for both fiscal years of 2006 and 2007 the annual rent will be $300,000 and annually adjusted for the Consumer Price Index. For the third quarter FY 2003 Covista has paid Henry G. Luken III $21,600 for rent of office space.

As of October 31, 2002, Covista received loans from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $7,000,000. These loans will be converted to equity upon shareholder approval which approval is expected to be provided at Covista's Annual Shareholder meeting scheduled to be held December 19, 2002.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Covista's revenues, net of sales discounts, are recognized in the period in which the service is provided, based on the number of minutes of telecommunications traffic carried, and a rate per minute. Access and other service fees charged to customers, typically monthly, are recognized in the period in which service is provided.

Deferred Line Installation Costs

Deferred line installation costs are costs incurred by Covista for new facilities and costs incurred for connections from within the Covista's network to the network of other telecommunication suppliers (such as Verizon, MFS and other carriers). Amortization of such line installation costs is provided using the straight-line method over the contract life of the lines ranging from three to five years.

Long-Lived Assets

Covista accounts for the impairment of long-lived assets and for long-lived assets to be disposed of by evaluating the carrying value of its long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying businesses annually and when indications of impairment are present. Long-lived assets to be disposed of, if any, are evaluated in relation to the net realizable value. If impairment is indicated, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on Covista's weighted average cost of capital. If the carrying value of the asset exceeds the fair value of the asset, the difference will be charged to the results of operations in the period in which the impairment occurred. Based on Covista's analysis of future undiscounted cash flow, which are in excess of the carrying value of its long-lived assets, there does not appear to be an impairment as of October 31, 2002.

On July 2, 2001, Covista received a loan from Henry G. Luken III, its Chairman of the Board and principal shareholder, in the amount of $4,000,000. This loan will be converted to equity upon shareholder approval which approval is expected to be provided at Covista's Annual Shareholder meeting planned to be held December 19, 2002.

The proceeds of the loan were used to purchase a 10-year commitment for approximately 2.8 billion DS-0 channel miles of telecommunications network capacity from an unaffiliated party. The unaffiliated party has filed for Chapter 11 reorganization; however, as of the date of this report, is continuing to perform under the agreement, and therefore, management does not believe that this asset is impaired. However, management has been unable to determine if this carrier's bankruptcy will impact the carrier's ability to fulfill its' obligation to Covista under the prepaid network capacity agreement.

As of October 31, 2002, Covista has used 63 million DS-0 channel miles of telecommunications network capacity against the 2.8 billion total prepaid network capacity, of which $400,000 has been classified as a current asset and based on anticipated usage in the next 12 months. The remainder of the prepaid capacity amount of approximately $ 3,200,000 in included in other assets.

Goodwill

Goodwill consists of the excess purchase price over the fair value of identifiable net assets of acquired businesses. Goodwill added subsequent to January 1, 2002 is not being amortized in accordance with SFAS142. The carrying value of goodwill is evaluated for impairment on an annual basis. Management also reviews goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill may be impaired. If it is determined that an impairment in value has occurred, goodwill will be written down to the present value of the expected future operating cash flows to be generated by the respective reporting unit.

Vendor Disputes

In the normal course of business, Covista files disputes with its service providers. Covista's accounting policy is to record the invoiced amount to cost of sales, which may include disputed amounts. When the dispute is resolved and the credit is received, the amount is credited to cost of sales. Open disputes included in cost of sales for the nine-month period and the three-month period ended October 31, 2002. are approximately $3,116,000 and $3,007,000, respectively.

Intangible Assets

Intangible assets are carried at cost, less accumulated amortization, and are amortized on a double-declining or straight-line basis over their expected lives based upon managements' expectation regarding the timing of future realization.

Quantitative and Qualitative Disclosures about Market Risk

Market risk represents the risk of changes in value of a financial instrument, derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates and equity prices. As Covista holds no significant marketable securities at October 31, 2001, the exposure to interest rate risk relating to marketable securities no longer exists. Covista does not hold any derivatives related to its interest rate exposure. Covista also maintains long-term debt at fixed rates. Due to the nature and amounts of Covista's note payable, an immediate 10% change in interest rates would not have a material effect in Covista's results of operations over the next fiscal year. Covista's exposure to adverse changes in foreign exchange rates is also immaterial to the consolidated statements as a whole.

COVISTA COMMUNICATIONS, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEMS 1 - 5 Not applicable

ITEM 6 Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed in the period

I, A. John Leach, Jr., certify that;

1) I have reviewed this quarterly report on Form 10-Q of Covista;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in quarterly annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Covista as of, and for, the periods presented in this annual report;

4) Covista's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Covista are have;

   a) designed such disclosure controls and procedures to ensure that material information relating to Covista, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness Covista's disclosure controls and procedures as of a date with 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) Covista's other certifying officers and I have disclosed, based on our most recent evaluation, to Covista's auditors and the audit committee of Covista's board of directors (or persons performing the equivalent functions);

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect Covista's ability to record, process, summarize, and report financial data, and I have identified for Covista's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in Covista's internal controls; and

6) Covista's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 16, 2002   By: /s/ A. John Leach, Jr.
A. John Leach, Jr.
President and Chief
Executive Officer

I, Thomas P. Gunning., certify that;

1) I have reviewed this quarterly report on Form 10-Q of Covista;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements, and other financial information included in quarterly annual report, fairly present in all material respects the financial condition, results of operations and cash flows of Covista as of, and for, the periods presented in this annual report;

4) Covista's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Covista are have;

   a) designed such disclosure controls and procedures to ensure that material information relating to Covista, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness Covista's disclosure controls and procedures as of a date with 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) Covista's other certifying officers and I have disclosed, based on our most recent evaluation, to Covista's auditors and the audit committee of Covista's board of directors (or persons performing the equivalent functions);

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect Covista's ability to record, process, summarize, and report financial data, and I have identified for Covista's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in Covista's internal controls; and

6) Covista's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 16, 2002 By: /s/ Thomas P. Gunning
Thomas P. Gunning,
Vicé President, Chief Financial
Officer and Principal Accounting
Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A. John Leach, Jr., President and CEO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

1) The report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Covista Communications, Inc.

Date: December 16, 2002 By: /s/ A. John Leach, Jr.
A. John Leach, Jr.
President and Chief
Executive Officer

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Covista Communications, Inc. on Form 10-Q for the period ending October 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Gunning, CFO of Covista Communications, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that;

3) The report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

4) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of Covista Communications, Inc.

Date: December 16, 2002

By: /s/ Thomas P. Gunning
Thomas P. Gunning,
Vice President, Chief Financial
Officer and Principal Accounting
Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Covista has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVISTA COMMUNICATIONS, INC.
(Registrant)

Date: December 16, 2002

By: /s/ A. John Leach
A. John Leach
President and Chief Executive Officer

Date: December 16, 2002

By: /s/ Thomas P. Gunning
Thomas P. Gunning,
Vice President, Chief Financial Officer
and Principal Accounting Officer

EXHIBIT "D"
BIOGRAPHY INFORMATION

Henry G. Luken, III was elected a Director of Covista in February, 1999, and Chairman of the Board in February, 2001. Currently, he is President of Mont Lake Properties, Inc., a real estate development firm;a director of Equity Broadcasting Corp., a TV network; a director of ACNTV, a home shopping company selling through TV; Managing Agent of Henry IV LLC, an aircraft sales company. A co-founder of Telco Communications Group Inc., he served as Chief Executive Officer and Treasurer from July, 1993 to April, 1996, and Chairman from July, 1993 to October, 1997. Mr. Luken has also served as Chairman of Tel-Labs, Inc., a telecommunications billing firm ("Tel-Labs") since 1991, and as Chairman of Telco Development Group, Inc., a computer systems firm owned by Mr. Luken, since 1987, both of which entities he founded.

Walt Anderson was elected a Director of Covista in February, 1999, and as Chairman of the Board in November , 1999. He stepped down as Chairman in February, 2001. He has been Manager of Revision LLC from June 1998 to the present; President and Chairman of Entree International Ltd. (Financial Consulting Services) from July, 1997 to the present; Chairman of Capsule Communications, Inc, as of April 2001, Chairman of Teleport UK Ltd. (Satellite Communications) from May, 1996 to the present; Chairman of Espirit Telecom Group plc. (Telecom Services) from October, 1992 to November, 1998 and President and Chairman, Mid Atlantic Telecom (Telecom Services), from May, 1984 to December, 1993. Mr. Anderson is also a director of American Technology Labs (Network Equipment) and Aquarius Holdings Ltd. (Water Transport Systems),

Leon Genet has served as a Director since October, 1996. For more than the past five years, he has been a partner in Genet Realty, a commercial and industrial real estate brokerage firm. He serves as a member of the National Commerce and Industry Board for the State of Israel Bonds Organization and is a shareholder, director and officer of LPJ Communications, Inc., which has earned commissions from Covista on the same basis as other independent sales representatives. See "Certain Relationships and Related Transactions".

A. John Leach, Jr. was appointed President and Chief Executive Officer and a Director of Covista on May 18,2000. He had been Senior Vice President of Sales at BTI Telecomm, Inc., from December, 1999 to May, 2000; Senior Vice President of Teleglobe, Inc. from June, 1998 to December, 1999, where he assumed responsibility for US and Canadian commercial sales markets. He was promoted to this position from Senior Vice President of Wholesale and Agent Markets, Telco Communications (a subsidiary of Teleglobe, Inc.) June, 1996 to February, 1999. Prior to that, Mr. Leach was Vice President of Agent Services at BTI Telecomm, from December, 1989 to June, 1996. Regional Sales Manager of Mobilecomm (a Bell South Company) where he started in sales and rose to a Regional Sales Manager position May, 1985 to December, 1989.

Jay J. Miller, Esq. has served as a Director since 1983. He has been a practicing attorney for more than 35 years in New York. He is Chairman of the Board of AmTrust Pacific Ltd., a New Zealand real estate company. He is also a director of Technology Insurance Company, Inc., a provider of various insurance products to the technology industry, and certain of its affiliates. Mr. Miller has performed legal services on behalf of Covista. See "Certain Relationships and Related Transactions."

Thomas P. Gunning was appointed Vice President, Secretary / Treasurer of Covista in May 1999. He was appointed Chief Financial Officer in September, 1994 and served in that capacity until May 0f 1999. He was again appointed Chief Financial Officer in May of 2000. He was appointed Secretary of Covista in January of 1995. He has served as Controller of Covista since September, 1992. He is a Certified Public Accountant licensed by the States of New York and New Jersey. From 1989 until joining Covista, Mr. Gunning was the Senior Audit Manager at Rosenberg Selsman & Company, a certified public accounting firm. From 1976 to 1989, he was Chief Financial Officer of Flyfaire, Incorporated, a travel wholesale operator. Prior to such time, Mr. Gunning held various positions in both public and private accounting firms.

Donald Jones recently retired from his position as Senior Vice President for Chapter Services of the American Red Cross, for which he worked since 1991. Prior to joining the Red Cross, Mr. Jones was Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy. Mr. Jones served in the United States Army for over 35 years and retired in 1991 with the permanent rank of Lieutenant General.

Nicholas Merrick currently serves as President of Mt Vernon Investments, LLC, an investment company, which he has served as President since January 2002. Mr. Merrick served as Senior Vice President and Chief Financial Officer of Telergy, Inc., a high-speed fiber optic communications network company, from May, 2000 to July, 2001. Telergy filed for reorganization under the bankruptcy laws in October 2001 and is currently in the process of liquidation. Prior to joining Telergy, Mr. Merrick was Chief Executive Officer of Up2 Technologies, Inc. and Executive Vice President of Excel Communications, each of which is a subsidiary of Teleglobe, Inc. (global communications, e-business services), from 1998 until 2000. From 1996 to 1997, he was Vice President and Chief Financial Officer of Telco Communications Group, Inc., and from 1985 to 1996, he was Vice President of Corporate Finance at the Robinson-Humphrey Company, Inc. and Managing Director of R-H Capital Partners.

Kevin A. Alward was appointed Chief Operating Officer of Covista on March 29, 2001 and was elected a director of Covista on July 17, 2001. He had previously served TotalTel USA as President and Chief Operating Officer from 1994 to 1998, when he left the company to become President of North America for Destia Communications, Inc. (formerly known as Econophone, Inc.) and its successor bymerger, Viatel, Inc. In April 2000, he co-founded Blink Data Corp., a telecommunications and data services provider headquartered in northern New

EXHIBIT "E"

ILLUSTRATIVE LOCAL EXCHANGE PRICE LIST